ISLAMIC ECONOMY AS AN ALTERNATIVE SOLUTION OF EUROPEAN ECONOMIC CRISIS

Didier Raul
Aix Marseille University, France
didier87@gmail.com

Abstract

The problem of the economic crisis reoccurred again in the global territory that began with the economic crisis in the country of Greece. The crisis arising from the country's financial deficit due to enormous state debt has an impact on the economic crisis in the European region. This phase of the economic crisis is a manifestation of the failure of the capitalist economic system imposed by western countries. Many economists began to open a discourse to review the existing economic system because it did not provide welfare for the community. Islamic economics starting in the 1970s has begun to be widely studied by various universities in the world, which was eventually implemented with the establishment of the first Islamic Development Bank (IDB) in Jeddah. This then continued with the establishment of an institution for how to distribute the wealth in the financial community (tauzi'ul tsarwah bayna an-ill-fated) with the Islamic economic system. There are 3 (three) principles of Islamic economics which include: the principle of how to obtain assets (al milkiyah), how to manage the ownership of assets that are already owned (tasharuruf fil milkiyah). Ownership of assets in the Islamic economic system consists of balanced individual, state and general ownership. So it is expected that there will be more equitable welfare and of course the existence of moral values for all economic actors.

Keywords*: economic crisis, tauzi'ul tsarwah bayna an-naas, al milkiyah, tasharuruf fil milkiyah*

INTRODUCTION

The European zone was again shaken by the economic crisis, which was caused by the inability of countries in Europe to pay off their debts. The magnitude of the numbers that came as a surprise to many people when viewed from the perspective of basic economic figures. If we recall, that the economic economic crisis in Europe started from the Greek country in 2009 which was evident from the budget deficit which reached 143% of gross domestic product (GDP). In other words, the Greek state is nearing bankruptcy because of the country's huge debt and the banking system in that country. In May 2010, several European countries through the ECB (Europe Central Bank) and the IMF (International Monetary Fund) committed to provide a bailout of Rp 110 billion euros to avoid the crisis that hit Europe as a whole. However, in reality within only 1 (one) year later it turned out that the crisis that occurred even deeper in the Greek state and spread to other European countries such as: Ireland, Portugal and Spain. Many parties propose that to overcome this economic crisis not only the state will overcome it, but also the private sector is expected to be involved. The results of the injection of the rescue fund by the ECB and the IMF did not provide encouraging results. Because various economic indicators that exist including the euro exchange rate experience severe shocks to affect various financial markets and capital markets in various Asian countries and other exchanges in the world.

Debt and State Budget Deficits

The crisis was first triggered by the Greek state which occurred in 2009 which then received bailouts from the IMF and European countries. Then funds amounting to Rp 110 billion euros or equivalent to Rp 1.314 trillion provided on July 21-22, 2011. However, this proved unable to help further the deterioration of the macro economy of the Greek country which has a debt of up to 328 billion euros with a deficit of 10, 5% in 2010. This condition was responded negatively by the Greek people who did not want to bear the mistakes made by bankers and government executives. More specifically, the policy of taking debt to finance government projects, a low tax control system, accounting manipulation is blamed as the initial cause of the crisis and the economic base is not strong. The average Greek economic growth rate in 1995 - 2008 reached 3.6%, but it is predicted that economic growth will decline to become -3%. Similar conditions occurred in Portugal where macroeconomic conditions also experienced difficulties as evidenced by the debt ratio indicator to GDP in 2010 reaching 93% equivalent to 195 billion euros. And the budget deficit reached -9.1% of GDP. The cause of the crisis in the country is because government spending is too large, the burden of loans in the property sector is large and the role of low private sector productivity. As a result, the predicted growth rate will accumulate to -1.5%. Ireland also has a GDP debt ratio of 96.2% with debt amounting to 148 billion euros and a budget deficit of -32.4%.

The impact of the economic crisis in the European zone reached Spain, which has a debt of Rp. 60.1% of the total debt of Rp. 638 billion euros and a deficit -9.2% budget and economic growth of only 0.8% until 2015. The cause is similar to the conditions in the country of Ireland caused by the construction sector. It turned out that the domino effect began to spread also to the country of Italy which has a debt of up to 1.9 trillion euros and a budget deficit of -4.6% and a debt ratio of 119% of GDP. The cause of this condition was triggered by the government's inability to reform and the emergence of a political crisis. So that it can be said that the similarity of the characteristics of the crisis that occurred in the Greek state, will be the same as what happened in other European zone countries that are members of the PIGS (Portugal, Italy, Greece, Spain). So the budget deficit is high and trapped in a euro that is too strong. Even though Spain and Italy have a greater GDP than Greece. Within one week the price of the PIGS countries' debt collapsed. The impact is a chain effect (contagion), stock prices and foreign exchange worldwide have also experienced a decline.

Various economic performance that is not good, resulting in a huge burden that must be borne by the countries of Germany, Britain, France to prevent a continuing crisis that has a serious impact on their country. However, if we look closely at the fact that the UK itself does not follow the euro currency, at this time the country has also begun to experience significant layoffs and streamlining in various sectors. A very serious impact is based on population data that the countries currently affected by this crisis account for almost half of the population of all of Europe with a contribution of GDP reaching 40% of the eurozone.

Euro currency

Many people began to question the existence of the euro and the establishment and the capital of the European Union members. This issue is based on existing realities regarding the inability to overcome various economic problems in the Eurozone. Moreover, there was also a discourse to get Greece out of the Eurozone. This is certainly based on reasonable worries, besides there are countries in the European Union that do not comply with the agreement so that strict sanctions are needed.

The Attitude of Investors

Economic actors such as investors feel worried about the risk of default in some European countries which raises the level of risk and causes investors to hesitate to place their funds in stocks or bonds. The Credit Default Swap (CDS) indicator or indicator of default in Italy and Spain is at a high level of 359.62 and 407.06. So it can be said that the higher the number of CDS indicators which indicate the risk of a country's investment, the higher the threat of crisis in that country. Besides in European countries, the United States itself is currently also experiencing a less encouraging economy even though CDS in the country is not high only reaching 54.33.

Step Concrete Leaders of Europe

It takes quickly a number of concrete steps to overcome the economic crisis in the euro zone which later is feared will spread to the global crisis. Where the global economy becomes unstable and the pace of the economy stops. So in need of a serious seriousness from the leaders of European countries in overcoming this financial crisis. Especially at this time, the Greek state which had received assistance of Rp 110 billion euros a year ago, even said it was unable to pay the debt it had received. On the other hand, Ireland and Portugal also applied for loans to the European Central Bank (ECB) and the IMF to restore the economy in their countries. But this is a matter of debate for established countries in the European Union in helping to provide solutions to rescue the economic crisis in the country of Greece, so it does not spread to other European countries. There are several options that might be taken by the European Union including extending the debt repayment period and the package of additional financial assistance. Opposition to the suspension of extending the Greek state debt occurred between the European zone finance ministers and the European central bank. On the one hand there are those who argue to extend the repayment period while at the same time providing additional finance. While other opinions still ask the Greek state to comply with the agreement that was made before, because if it is assisted by another loan, it will actually add to the extraordinary amount of debt. This allegedly will empty the banks' cash in Greece from debt and bonds which are required to be collateral to obtain loans from European central banks.

There is also a discourse to provide additional loans to Greece with collateral in the form of islands and historic sites in the country as collateral, because the country's bonds are no longer valuable. This is certainly concerning the Greek government which prioritizes the way to privatize several state assets such as airports and toll roads which are expected to provide cash funds of Rp 50 billion euros. It is very important for the Greek government to tighten its economic policies. The proposed privatization of several state assets, of course, needs to be considered again about the pluses and minuses of the policy. Because it will get a broad challenge from the people of that country. This is proven by the rise of various demonstrations related to opposing the policy. This condition also began to hit in other European countries, such as in Spain. The demands of society are generally the same, namely: the provision of jobs, housing for the people, against high salaries for politicians and bankers.

Crisis Differences

Differences in crises that occur in the United States and in Europe. If the crisis in the United States that occurred in 2008 was triggered by the banking crisis and financial institutions that provide too many low-standard housing loans (subprime loans) and very large derivative transactions. While the crisis that occurred in the European continent is caused by large government debt, due to borrowing in previous years to finance expenditures that are not well targeted. Especially on the other hand there are many investment banks that continue to offer loans to the Greek government with a balance off sheet instrument. So that over time the amount of debt increasingly soared, plus the discovery of engineering factors in its financial statements. As a result, the debt rating and the price of Greek government debt fell.

Anticipation of the State of Indonesia

How does the impact for our country Indonesia, apparently not have a significant impact because exports (exposure) to European countries only reach 1% of the total value of Indonesia's exports so that it is still very limited. Financial transactions reach 10% and the amount of capital invested in Indonesia is still below 2%. Even so the position of the Indonesian state must still be prepared to face the worst possibilities, which can be realized in the form of changes in the APBN (APBN-P) that are possible. Assumptions in the APBN-P are expected to have taken into account various fiscal risks and a stabilization instrument is still being prepared if there are changes that can be absorbed by managing risks.

There are several things that are quite good in the Indonesian economy in an effort to ward off the impact of the crisis from Europe (external shock), namely: Indonesia's current state budget is more prudent, foreign exchange reserves are large enough, there is capital inflow into the market, and various monetary policies that are expected to be sufficiently understood among economic actors. Even so it needs to be watched out because Indonesian government debt over the past five years has risen by 30% to reach Rp 178 billion US dollars with high interest rates. Though the combination of debt and budget deficits is very dangerous. Moreover, the amount of short-term funds (hot money) entering Indonesia is higher than before the Greek crisis. Estimated to reach 110 billion US dollars. These factors can also cause Indonesia to be quite vulnerable to external economic shocks. Although the ratio of debt to Indonesia's GDP is low. But more important is the indicator of the government's ability to pay debts, namely the ratio of principal and interest payments to government revenues, which is already very high, reaching one third. Besides that there are factors that need to be considered also from private sector debt which is likely to potentially increase the burden of debt in general.

Economic Crisis Theory

The economic crisis can be reviewed from several aspects, including the exchange rate crisis whose indicators are devaluation of the domestic currency and policy changes from a fixed exchange rate system to a flexible / floating exchange rate system. In the opinion of Krugman, 1979 and Flood & Garber, 1984 there were 3 (three) crisis models based on the experience of several countries that had experienced an economic crisis, namely: First Generation Model, Second Generation Model, Third Generation Model. What is meant by the First Generation Model (FGM) or exogeneous policy model is that this crisis model focuses more on the inconsistency of fiscal, monetary and exchange rate policies. The main cause of the crisis was the speculators' attack on the exchange rate of a country which forced the country to change the exchange rate of its currency. There are several factors that form the basis of the analysis of this FGM model, namely full employment, single tradable goods, small open economy, exogenous output, PPP. In addition to the above factors, there are several assumptions in the perfect foresight condition by having 3 (three) types of assets such as: domestic money, domestic bonds and foreign bonds. As well as the assumption that there is a monument base, fixed exchange, domestic credit increases at a constant rate to finance the government deficit. Empirically the First Generation Model (FGM) has occurred in several Latin American countries in the period 1970 -

1980s marked by an increase in the state budget deficit, foreign exchange reserves are running low, high inflation rates and the occurrence of over valued of the exchange rate of the domestic currency.

Second Generation Model (SGM) or endogenous policy model, often also called self fullfiling process. There is a basic assumption in implementing SGM that ERM (Exchange Rate Mechanism) members want to maintain the existing exchange rate, because it is expected to provide benefits such as: low and stable inflation rates, to encourage domestic production, the benefits of devaluation policies are considered higher if more investors who think that the currency must be devalued.

SGM is a phenomenon of the crisis that occurred in Europe with the European Exchange Rate Mechanism (ERM) in 1992. During this time, European countries within the framework of the European Union (EU) fixed exchange rate system or precisely the crawling peg system. Where in each currency has a middle value and it is possible to move. Then each Central Bank seeks to maintain its exchange value in the band by selling / buying forex. If the attempt is not successful, then the exchange rate must be changed. The currency is pegged against the German DM which is considered to have a low and stable inflation rate. But on the other hand, several other European countries are experiencing a sluggish economy. Trying to maintain a fixed exchange rate with the German DM, they must therefore increase interest rates. But there is a dilemma between the internal interests of each country that must reduce interest rates to combat recession. As a result, there is a conflict of interest as seen from several policies taken. For example countries: Italy, Finland, Spain devalue their currencies by 7%, 13% and 5%. In addition there is a policy of increasing interest rates in Sweden from 24% to 75%. Britain raised interest rates from 10% to 15%. Sweden and Ireland also raised interest rates by 300% and 500%.

Third Generation Model (TGM) or also called the Asian Crisis. The Asian crisis began in Thailand, then affected Indonesia, Malaysia, South Korea and the Philippines. The Third Generation Model (TGM) assumes the role of moral hazard in the form of an implicit government guarantee that is willing to bail out private companies and banks in trouble and guarantee investors' future revenue and balance sheet effects. The impact is excessive borrowing and lending. Even though the government deficit figure was not too high before the crisis, there was a refusal of foreign creditors to refinance debt, thus forcing the government to help and guarantee outstanding foreign debt. In addition, expectations of future inflation trigger a speculative attack on the domestic currency which is generally fixed.

If we analyze the crisis that occurred in the Asian region related to short-term capital or hot money which is very isolated. In the early 1990s many Asian countries liberalized capital accounts, resulting in high economic growth, with seemingly sound fundamental conditions. Capital account liberalization causes large capital inflows. Generally, short-term funds are widely used to develop the property sector and enter the stock market. Data from several ASEAN countries obtained the largest capital account surplus of US $ 55 billion in 1995. But in 1998, the capital account deficit was around US $ 59 billion. Capital inflows from abroad have stopped and changed to massive capital outflows. The implication is to weaken the currencies of several weaker Asian countries. IDR:> 80%, Baht: 50%, Won: 55%. Finally, policies are taken to reduce capital outflows, namely by raising interest rates. This condition creates difficulties in the bank's balance sheet, NPL rises. As a result, bank liquidity is running low; public trust in banks has fallen, and the opening of L / C (Letter of Credit) for the facilitation of export and import has difficulty gaining trust from outside parties. So that the current economic crisis raises a new crisis theory that is the Fourth Generation Model with the main cause of the weakness of the surveillance system by the state or the agency authorized to carry out financial transactions on the capital market, financial markets and various kinds of derivative products.

Islamic Economics as an Alternative Solution

John K. Galbraith, in his book The New Industrial State states that, "consumption of goods has become the greatest source of pleasure, and the highest benchmark of human achievement". As a result, the behavior of hedonism, materialism and consumerism struck almost all aspects of the members of society. At present there is increasing excessive desire to fulfill individual needs both in the form of material and gratification of desires. This can be said as a result of the phenomenon of modern capitalism. But on the other hand there is still little effort to fulfill spiritual needs, and the need for equitable distribution of welfare in society.

High economic growth according to the concept of a capitalist economic system needs to be reviewed. Because in reality, efforts to improve welfare are not followed by the distribution of welfare distribution. This condition results in an increasingly widening gap between the socioeconomic classes of the rich and the poor. Various decent clothing, food, housing needs cannot be fulfilled properly. Moreover, the education and health sectors are far from sufficient. Many new problems are actually being created for the poor by increasing the price inflation rate so that the prices of necessities are more expensive. Currently, according to E.J.Mishan in his book The Cost of Economic Growth, there are signs of increasing anomalous symptoms such as stress, depression, frustration, loss of trust, allusion between parent and child, divorce and anarchic actions. Tension everywhere is more felt than harmony, injustice is more pronounced than justice. Besides that it turns out that the phenomenon of increasing the volume of goods and services has not been able to contribute to human happiness. Because ultimate happiness lies in the peace of the soul, which is not only a material function but also a spiritual state. The unjust distribution of income accompanied by striking differences in life levels makes people suffer constantly and unhappy. People are never satisfied and never want to fulfill obligations towards others. As a result, the level of social solidarity is getting weaker and society is experiencing alarming moral degradation.

According to Daniel Bell, in the system of modern capitalism there is a combination of three main forces, namely: the greed of the bourgeoisie, democratic political society and individualistic spirit, has failed to answer all the problems above. Even the ideas offered by Marxism are not able to provide a solution, because the real cause of human problems is not class struggle, but moral degradation. And there is no doubt that Marxism plays an important role in underestimating morals, as well as its role in encouraging consumptive tendencies. So that the collective system in Marxism fails to solve almost all the problems faced by capitalism. Based on the above explanation, it can be concluded that an economic system is needed that promises the right solution by hoping for the concept of an Islamic economic system.

The superiority of the Islamic economic system is the integration of moral values and spiritual values in the system. That moral value is absent in the economic activities of the western-style capitalist economic system. If there is no control of moral values, then what arises is the behavior of economic agents who tend to damage and can harm the general public. For example the emergence of monopolistic practices, usury and various fraudulent techniques that continue to emerge in various modes

The above conditions have begun to be realized by economists, about the importance of moral values in the economy. Fritjop Capra in his book, "The Turning Point, Science, Society, and The Rising Culture, states economics is the science that is most dependent on values and most normative among other sciences. Another EF Schummacher economist, economist Ervin Laszlo in his book, "3rd Millennium, The Challenge and Vision" put forward the same thing. Alternative solutions offered by the concept of Islamic economics in dealing with the current economic crisis are 2 (two), namely: first, a partial solution. Second, a comprehensive solution (kafah) .In a partial solution, the Islamic economic system seeks to replace the interest factor as a factor of production with a profit sharing system, then erase the secondary market and derivatives market, and bring up the capital market and Islamic banking, however, this is considered not to provide optimal results if the economic system is actually still running on the guidance of the economic system of capitalism. ment a comprehensive Islamic economic system (kafah), not a partial application that lacks a significant impact. In the teachings of the Islamic economic system there are 3 (three) first principles of how to obtain wealth (al milkiyah), secondly how to manage ownership of assets that have been owned (tashararuf fil milkiyah), and thirdly how to distribute the wealth in the community (tauzi'ul tsarwah bayna an-ill-fated) In terms of ownership of assets in the Islamic economic system is divided into the first three types of individual ownership (private property), second ownership by the state (state property), third ownership by the public (collective property)

Individual ownership can have wealth in certain ways of ownership as follows: by work, inheritance, the need for assets to sustain life, assets obtained by someone without spending any assets or energy. Specifically assets with individual ownership that enter the market mechanism (sharia), while 2 (two) other types of assets flow to the Baitul Mall. Public ownership means objects owned by a community that needs one another. Islamic economics forbids ownership of the object controlled by a person or a small group of people. As for the objects which are included in public ownership are grouped into 3 (three) groups, namely the first objects which are public facilities, the second objects whose formation is obstructing to be owned only by individuals individually, and the third mining material which is very large. State ownership in the form of assets which is the right of all Muslims whose management becomes the authority of the state, which the state can give to some citizens according to its policies. Realizing the above system requires changing the role of a bolder country by changing the economic system to be based on Islam as a whole.

The Islamic Economic System is part of the entire system of Islamic teachings that is closely related and comprehensive. It is this suitability, harmony and balance in human nature that do not cause conflicts of interest. Controlled economic freedom (al-hurriyah) is a feature and principle of the Islamic economic system, such as freedom to have an element of production in running the economy. Individual freedom still exists, with the conditions that it does not harm the common interests or the general public. So that the conditions are expected not to damage the social order. The control is by the obligation of each individual to the community, at the command of Allah, through the zakat, infaq and sedaqah programs. The characteristics of the Isalam economy also promote free competition. But competition that remains responsible is in the form of compliance with the rules of the game such as: the goods are not defective, the market is not distorted by the hands who deliberately play it, the prohibition of monopoly forms, fraud, and the prohibition of usury practices.

CONCLUSION

The capitalist economic system experienced the umpteenth time of crisis. Starting in the first phase the economic crisis began in 1929 which lasted for 4 (four) years. Then the second phase of the economic crisis occurred in the early 1960s to 1970. The third phase occurred in 2008 and has continued to this day. This shows that the capitalist economic system apparently cannot be used as a global economic system and is even considered to have failed in realizing the welfare of the world economic community. This is evidenced by the increasingly widespread demonstrations against the capitalist system by people in various western countries, including in the United States. Moral as its basis because of the failure of various ideologies and world economic systems, then since a few decades ago there was a new wave of awareness of world economic experts to find a new economic system that can realize prosperity and justice. The new system is now directed towards the Islamic economic system.

Intellectual movements to re-actualize Islamic economics began to emerge during the 1970s.

The Islamic economic system focuses on 3 (three) aspects, namely: how to obtain wealth (al milkiyah), how to manage the ownership of assets that have been owned (tasharuruf fil milkiyah) and how to distribute the wealth in the community (tauzi'ul tsarwah bayna an-naas). Now is the right moment to evaluate the economic system that has been operating according to the western concept, which is expected to be replaced by a more just and more moral economic system. The solution that can be offered is the concept of Islamic sharia economics. Surely this needs an ongoing struggle to convince all parties about a more just Islamic economic system. It is time for countries where the majority of the population is predominantly Muslim to first spearhead and popularize with accompanied by tangible evidence of the benefits of this Islamic economic system.

REFERENCES

1. Antonio, Muhammad Syafii. 2001. "Sharia Banks: From Theory to Practice". Human echoes. Jakarta
2. Al Jawi, M Shiddiq 2010. Islamic Economic System. Journal of Economics, Jakarta
3. Az Zain, SA.1981. Islamic Sharia: In economic, political and social discussions as a comparative study. Bandung.
4. Bell, Daniel. 1960. "The End of Ideology". first edition
5. Capara, Fritjop. .2007. "Turning Point, Science, Society and the Rising Culture". Yogyakarta footprint
6. Galbaith, John K. 1987. "The New Industrial State". Princeton.
7. Laszlo, Ervin. 1997. "Third Millennium, the Chalenge and the Vision". Gaia Books.
8. Mihan, EF. 1967. "The Cost of Economic Growth". Stapless Press
9. Mucdartsyah, Sinung. 2000. Bank Fund Management. Bina Aksara. Jakarta
10. Schummacer, EF. 1977. "Small is Beautifull: Meta Ecnomics"
11. Ramli, Rizal. 2010. Greek Debt Crisis. Sindo Jakarta