

***The Typology of The Global Financial Crisis and
the Solution in Islamic Economic Perspective***

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ABSTRACT

Economic globalization has triggered more frequent financial crises. Financial crises constantly repeat every specific time. This article reviews the typology of the global financial crisis and the solutions offered by Islamic economics. The research uses a historical approach. Five typologies of the global financial crisis, namely: Speculative bubbles and Crash, Sovereign Default, Balance of payment crisis, systemic banking crisis, and Energy Crisis. The financial crisis typologies of Speculative bubbles and Crash are the Wall Street Crash of 1929 and the Great Depression, Black Monday, Japanese Asset Bubble, Dot-com Bubble, US Saving & Loan Crisis, and the Suprime Mortgage Crisis. The financial crisis typology of Sovereign Default is the Latin American Debt Crisis, the Mexican Peso Crisis, the Asian Financial Crisis, and the European Crisis. The typology of financial crisis Balance of payment crisis is the Mexican Peso Crisis and the Russian Financial Crisis. The financial typology of the energy crisis is the oil crisis. Islamic economics offers a solution so that the financial crisis does not recur in the future. The prohibition of *riba*, *maysir* and *ghaarar* transactions offers a solution to the financial crisis typology of Speculative bubbles and Crash. The principle of equity financing in Islamic economics is a solution to the financial crisis of the Sovereign Default typology. Islamic economics prioritizes the financial sector, which is in line with the real sector as a solution to the financial crisis typology of the Balance of payment crisis. The value of morality (*akhlakul karimah*) is a solution to the financial crisis because of the moral hazard.

Keywords: *global financial crisis, Islamic economic*

ABSTRAK

Globalisasi ekonomi memicu semakin seringnya terjadi krisis keuangan. Krisis keuangan senantiasa berulang setiap kurun waktu tertentu. Kajian artikel ini tentang tipologi krisis keuangan global dan solusi yang ditawarkan ekonomi Islam. Penelitian menggunakan pendekatan historis. Lima tipologi krisis keuangan global, yaitu: *Speculative bubbles and Crash*, *Sovereign Default*, *Balance of payment crisis*, *systemic banking crisis* dan *Energy Crisis*. Krisis keuangan tipologi *Speculative bubbles and Crash* adalah *Wall Street Crash of 1929 and Great Depression*, *Black Monday*, *Japanese Asset Bubble*, *Dot-com Bubble*, *U.S Saving & Loan Crisis* dan *Suprime Mortgage Crisis*. Krisis keuangan tipologi *Sovereign Default* adalah *Latin American Debt Crisis*, *Mexican Peso Crisis*, *Asian Financial Crisis* dan krisis Eropa. Krisis keuangan tipologi *Balance of payment crisis* adalah *Mexican Peso Crisis* dan *Russian Financial Crisis*. Krisis keuangan tipologi krisis energi adalah *oil crisis*. Ekonomi Islam menawarkan solusi agar krisis keuangan tidak terjadi kembali di masa yang akan datang. Larangan transaksi *riba*, *maysir* dan *ghaarar* menawarkan solusi untuk krisis keuangan tipologi *Speculative bubbles and Crash*. Prinsip *equity financing* dalam ekonomi Islam merupakan solusi bagi krisis keuangan tipologi *Sovereign Default*. Ekonomi Islam mengedepankan sektor keuangan yang sejalan dengan sektor riil menjadi solusi krisis keuangan tipologi *Balance of payment crisis*. Nilai *akhlakul karimah* menjadi solusi krisis keuangan karena *moral hazard*.

Kata kunci: krisis keuangan global, ekonomi Islam

INTRODUCTION

A *financial crisis* is when several financial assets experience a significant decline in value. Mitchell states a crisis is an economic condition that has experienced or is somewhat in a recession (Sihono, 2012), while Harbeler interprets the crisis as a marked deviation from economic activity and is the starting point for a downward-turn or the upper turning point (Estey, 1960). Financial crises are usually marked by panicked investors who then sell or withdraw their financial assets because of fears that the value of their assets will continue to decline.

History shows that financial crises began when people and society traded, but the difference between these crises lies in their impact and duration. The first financial crisis occurred during the Roman and Byzantine empires. Wars and droughts had drained resources, forcing the government to increase taxes on the population to maintain the empire, which led to a widening gap between rich and poor and led to the decline that led to the end of these kingdoms.

Along with the expansion of global trade facilitated by developing financial instruments such as promissory notes and money orders, financial crises are more common. The first crisis that occurred during this period of trade expansion was the Dutch tulip mania. The tulip flower trade grew because it became a mandatory item for the Dutch people. After more than two years, it resulted in financial difficulties for those caught in the tulip mania, which caused an economic downturn in that country. The Dutch tulip mania was a speculative event that arose and caused a financial crisis, but its impact and duration was limited (Alrifai, 2015).

Apart from the above crises, some crises had a widespread impact and a long duration, such as The Great Depression crisis, the biggest crisis in history that occurred for 10 years, namely 1929-1939, due to market failures. In 1997's another crisis occurred, namely the monetary crisis in Asia, which affected currencies, stock exchanges, and other asset prices in several Asian countries. Furthermore, in 2008 the crisis emerged from the superpower United States which triggered financial crises all over the world (Hilman, 2017).

Economic globalization has also triggered more frequent occurrences of global financial crises. The economic and trade activities of countries worldwide have become an integrated force without any barriers to national territorial boundaries. Due to the integrated financial system, domestic financial disturbances in a country can dominate global finance. In addition, advances in information technology can enlarge and accelerate the dissemination of information from one country to another, allegedly triggering a financial crisis.

The condition of the financial crisis in the economy is a condition that continually repeats itself in a certain period. In the future, financial crises will continue to occur because the existing financial system has the nature that triggers the crisis (Alrifai, 2015). The results of research conducted by (Grant, 1998) in his

book "The Trouble with Prosperity", show that finance has a cycle of prosperous times that will always be followed by gloomy times or vice versa. Although the triggers are different, the underlying cause is the same. Money, whose primary function is as a medium of exchange, unit of account, or store of value, has now evolved into a commodity.

There are five theories of the financial crisis that are known along with the development of the financial crisis, namely: the first generation model, the second generation model, the third generation model, the Austrian business cycle theory and the Hyman Minsky theory. The first generation model explains that the crisis occurred because it was caused by inconsistent government policies, especially in the fiscal and monetary sectors in a fixed exchange rate system. According to Krugman, the government uses a deficit budget policy with financing from excessive credit expansion from the central bank which causes an increase in the money supply or excess liquidity in the market, causing inflation to tend to be high. This excess liquidity will be converted into foreign currency, so the demand for foreign currency will increase (Krugman, 1979). According to Ascarya, when viewed from an Islamic point of view, the main problems of the crisis seen from the theory of the first generation model come from the fundamental problems of the monetary system, both the currency system, the interest system, excessive supply of paper money, an over-deficit fiscal sector, speculation, and expectations (Ascarya, 2015). The weakness of this first model theory is that it focuses too much on macroeconomic aspects.

The second generation model theory was offered by (Obstfeld & Rogoff, 1986). This model emphasizes micro aspects related to government regulations on financial institutions to maintain coordination and equilibrium between creditors. The role of the central bank in maintaining and regulating this coordination is one of the developments in this model, the emergence of a fractional reserve system and the development of the response to banking problems such as bad credit, banking interest rate regulation develops in this second generation theory. When viewed from the point of view of Islamic economics, the problems that arise in this model are problems related to financial institutions such as speculation, expectations, the fractional reserve banking system, the leverage system, bad loans, troubled financial institutions, and the interest system (Ascarya, 2015).

The third generation model theory looks for links between the first generation and the second generation. The first generation model focuses more on macroeconomic aspects, especially the crisis model based on the balance of payments. In contrast, the second generation model focuses more on financial institutions, especially banking. This third generation model emphasizes a link between the first and second generations because most currency crises coincide with crises in the financial sector. (Ascarya, 2015). This third generation model concludes that the crisis phenomenon is caused by complex things, not only from the macro aspect but also from the micro aspect (Diaz-Alejandro, 1985) and (Kaminsky & Reinhart, 1999).

Austrian business cycle theory uses the basic assumption that money is not neutral and that fluctuations in its value reflect what is and is happening in the real economy (Zelmanovitz, 2011). Economists call this cycle the credit cycle with four phases: expansion, crisis, recession and recovery. The crisis phase begins with corrections to credit expansion when interest rates are lowered, and credit creation occurs without regard to creditors' consumption preferences (Isaic et al., 2019). When consumption increases, the ability to pay decreases, resulting in bad loans or defaults. On the money circulation side, the money supply increases for consumption purposes without any preference for investment, resulting in the collapse of the capital market (Ascarya, 2015).

Hyman Minsky's theory with the hypothesis of financial instability assumes that the capitalistic economy has an unstable nature (Minsky, 1992). This assumption aligns with Alrifai's opinion, which states that conventional economics, especially debt-based ones, are unstable nature and are inherent in the current economic system (Alrifai, 2015).

In the context of Islamic economics, financial crises cannot be separated from economic practices or activities that are contrary to Islamic values, such as the consuming *riba*, monopoly, corruption, and other malpractice acts. Suppose economic actors are accustomed to acting outside of divine economic guidance. In that case, it is not an exaggeration if the economic crisis that hit is a catastrophe that is deliberately invited by its presence (Majid, 2015). In the Qur'an it is stated that the economic crisis is part of the consequences of human behavior (Surah Ar-Ruum: 41, usury transactions (QS Al-Baqarah: 188), Maysir (Surat Al-Maidah: 90), Gharar (QS Al-Maidah: 90), Baqarah: 188 and QS An-Nisa: 29).

Several financial crises are 1) Bank run or rush, namely, when commercial banks experience massive withdrawals by their depositors. In contrast, most of the depositor's funds have been distributed by banks in the form of loans to experience cash difficulties (liquidity problems). In a short time because of the significant demand for cash, which can cause the bank to go bankrupt. If one bank's panic spreads to other banks, there will be a systemic banking crisis or banking panic called credit crunch. 2) Speculative bubbles and crashes, A financial asset is said to be bubbled when its price exceeds the value that will be obtained in the future in the form of interest or dividends if held to maturity. If most market participants buy an asset intending to resell it at a higher price, instead of expecting income from the asset when it matures or in the future, this indicates a bubble. If a bubble occurs, there will also be a risk of a crash in the asset price, which happens if market participants continue to buy because they feel that others will also buy. When many market participants decide to sell, the asset price will fall. 3) Currency crisis or balance of payment crisis, when a country maintains its foreign exchange rate and is forced to devalue its currency due to the attack of speculators. If a country fails to pay its debt, it is called a sovereign default. These two types of crises have caused foreign investors to stop or withdraw their funds from the country (Ali, 2009). Meanwhile, according to Reinhart and Rogoff, there are four types of financial crises

often occur debt crises, currency crises, banking crises, and inflation crises (hyperinflation) (Reinhart & Rogoff, 2012).

Based on the description above, it can be seen that there has been a financial crisis that has a long duration and a broad spread impact, in the future referred to as the global financial crisis. Then, it is believed or not that this financial crisis will experience repeated cycles and have the potential to occur again in the future. It is also stated that the leading cause of repeated crises is the use of money as a commodity, which means money is traded and used for speculation, which is also contrary to the function of money in Islamic economics. Therefore, researchers feel it is crucial to conduct a study of global finance to answer the financial crisis's typology. Furthermore, what solutions are offered by Islamic economics so that similar crises do not recur in the future?

RESEARCH METHODS

This research is a qualitative with a historical approach that uses a literature study. *Historical research* is an appropriate method to examine an event empirically, descriptively and analytically. In this case, historical writing reveal an event chronologically and has to go through a process of analysis (Sjamsuddin, 2007). This study uses a historical approach because there are data and facts related to financial crisis events that occurred in the past. The financial crisis that will be studied is the global financial crisis which has a broad impact and long duration. The technique of collecting data is through literature study, which is done by reading and reviewing books and articles that help the author answer the research objectives.

Researchers carried out six steps in this study as Wood Gray suggested: 1) Choosing an appropriate topic. 2) Investigate evidence that is relevant to the topic. 3) Make notes about what is considered important and relevant to the topics found when the research is in progress. 4) Critically evaluate all evidence that has been collected (source criticism). 5) Arrange research results (fact notes) into a correct and meaningful pattern. 6) Presenting in a way that can attract attention and communicate it to the readers to be understood as clearly as possible (Sjamsuddin, 2007).

RESULTS AND DISCUSSION

Typology of Global Financial Crisis

Financial crises have occurred since humans began to carry out trade transactions, but of all these financial crises, what makes the difference is the impact of the spread and the duration of time. A financial crisis had a non-widespread impact and a short duration of time. However, a financial crisis also had a broad impact on several countries (globally) and with a long duration. In the last century, a repeat of the financial crisis has occurred. Beginning with the Wall Street Crash and Great Depression crisis that occurred in the United States in 1929, triggered by the stock market crash (Alrifai, 2015). According to Alrifai in his book "Islamic Finance and the New Financial System," 10 (ten) financial crises that had a broad impact in

the period 1929-2001 were: 1) Wall Street Crash of 1929 and the Great Depression; 2) Oil Crisis; 3) Latin American Debt Crisis; 4) Black Monday; 5) US Savings & Loan Crisis; 6) Japanese Asset Bubble; 7) Mexican Peso Crisis; 8) Asian Financial Crisis; 9) Russian Financial Crisis; 10) Dot-com Bubble. In addition to the 10 crises, two other crises that have had a broad impact are the Suprime Mortgage Crisis and the European crisis.

Before mapping the typology of the global financial crisis, the history of these crises will be described first:

1) *Wall Street Crash of 1929 and Great Depression*

Wall Street Crash of 1929 and Great Depression is one of the great financial crises that occurred after World War I. War-torn countries modernized their economies in a new era of technology that led to changes in people's lifestyles. At that time known as the "Roaring Twenties". The Roaring twenties fostered an entrepreneurial spirit and the courage to take risks to get big profits for the citizens of the United States, along with the rapid economic development in 1920-1929. This condition caused many citizens to invest in the stock market to get big profits, to use their funds' loans to buy shares on the New York Stock Exchange (NYSE) based on Wall Street, New York City. In August 1929, brokers offer loans to small investors up to 90% of the stock price. As a result, Wall Street was higher than its actual value, until its peak in August 1929. Nevertheless, on the other hand, this condition caused productivity to decline, leading to increased unemployment. Low wages caused many people to go into debt. In addition, there was also a drought which caused the agricultural sector to deteriorate and food prices to fall. Banks are also affected by large loans but cannot be returned (Alrifai, 2015).

The United States economy experienced a mild recession in 1929, which impacted slowing consumption growth, production piling up, and in the end, factories suppressing production. On the other hand, stock prices have not fallen. On October 24, 1929, investors began to get nervous and sold their shares up to 12.9 million shares known as "Black Thursday", then on October 29, 1929, a total of 16 million shares were traded after the wave of panic hit Wall Street known as "Black Thursday". Millions of shares ended up being worthless, and investors who had bought shares with borrowed money were wiped out completely.

The stock market that has subsequently lost investor confidence, causing investment to fall and factories and businesses slowing down production and laying off employees. Meanwhile, people still working experienced a decrease in wages, so purchasing power decreased. Most Americans shop on credit or in debt, so the number of foreclosures and returns increases. The lowest point of the Great Depression occurred in 1933, when about 15 million Americans were unemployed and most banks went bankrupt. This condition occurs not only occur in the United States but also in countries that follow the gold standard set by the United States and countries based on the United States dollar exchange rate (White, 1990).

2) *Oil Crisis 1973*

The oil crisis had a significant impact on the world economy because it was related to petroleum, which almost all countries used as the primary energy source. The 1973 oil crisis occurred due to the war in the Middle East region. This war is known as the Yom Kippur war. The Yom Kippur War took place on October 6, 1973, which involved Israel with Egypt and Syria for 20 days. In this war, Egypt and Syria were assisted by several other Arab countries, while the United States assisted Israel. Saudi Arabia has a significant role in this crisis by using "oil weapons" by imposing an embargo on the United States and several other western countries that support Israel. Saudi Arabia's large oil production and reserve allow this country to control world oil prices. The decision to use "oil weapons" was made in Kuwait on October 17, 1973 by the oil ministers of the OAPEC (Organization of Arab Petroleum Exporting Countries) member countries (Issawi, 1978).

The embargo imposed by the Arabs has caused several countries in the world to experience economic problems. The problems that arise are the result of rising world crude oil prices. As one of the advanced industrial countries, Japan also feels the impact of this embargo. The existence of trade relations between Japan and the United States made Japan also experience panic due to the oil embargo to the United States, which was more in favor of Israel at the time of the October 1973 war. The panic caused by the oil crisis increased oil prices. It caused the prices of other goods that depend on oil to increase, making the Japanese economy slump again after experiencing frequent inflation. Even led to a widespread recession not only in Japan but also other countries in the world. So many call it a world economic recession (Turk, 2014).

3) *Latin American Debt Crisis*

Latin American Debt Crisis is a phenomenon of the debt crisis in Latin America in 1982 due to the dependency relationship between Latin American countries and commercial banks in the United States. Latin American countries need loans from US commercial banks to build and stabilize their economies. However, these countries have difficulty paying their debts along the way, while US commercial banks require immediate repayment of loans to prevent bankruptcy. This crisis began on August 12, 1982, when Mexico's finance minister stated that Mexico could not pay off its \$80 billion debt (mainly in United States dollars). The four countries with the most enormous accumulated debts, namely Mexico, Brazil, Venezuela, and Argentina, reached \$176 billion or about 74% of the total debt of LDC (Less Developed Country), which is a term to refer to countries in Latin America. About \$37 billion is owed to the eight largest commercial banks in the United States, making up 147% of the bank's capital and reserves. Consequently, some of the world's largest banks are experiencing the prospect of default and major loan defaults (Roett, 1988).

4) *Black Monday*

On October 7, 1987, the Dow Jones Industrial Average (DJIA) fell 190 points, a sign of a stock market crash. Investors predict that the stock market crash will occur because it is overvalued, so they take stock sales to anticipate and avoid more significant losses. Furthermore, on October 19, 1987, there was a sharp decline in

the Dow Jones stock index by 508.32 points from 2,246.72 to 1,738.4 points or a decrease of 22.62%, so the event was known as “Black Monday” (Atmadjaja, 1999).

The causes of the stock market crash in 1987 were: a) The use of new technology in the stock exchange, which used a computer system in stock transactions so that the transaction speed increased, computer programs were designed to avoid losses by tolerant of a decrease in stock prices to a certain level. If the stock price crosses this limit, some computers are programmed to place a sell order, while others are designed to buy shares. Because there are buy and sell orders, there will be transactions at a lower price level than before. The interaction of these two programs quickly causes prices to fall. b) Portfolio insurance, a trading program designed for hedging purposes. Dynamic hedging portfolio insurance can encourage large investors to sell several simultaneously when stock prices decline. This condition causes the decline in stock prices to accelerate. c) An increase in long-term interest rate a week before the stock market crash. The Federal Reserve increases interest rates to prevent the US Dollar from depreciating. An increase in interest rates causes stock prices to fall. d) Investor panic, the psychological impact of excessive selling, is the cause of the stock market crash. Panic selling pushes the price down quickly a week before the stock market crash (Carlson, 2006).

5) *US Savings & Loan Crisis*

The Savings and Loans (S&L) crisis began in the early 1980s when the Fed declared war on inflation. As interest rates rose, S&L's profits became negative. Some even closed. Bypassing the Depository and Monetary Control Institutions Deregulation Act of 1980, regulator responded, offering patience to bankrupt institutions. They left zombie S&Ls open, covered their accounting, and hoped they would solve their problems. They also reduce capital standards with lax laws. Federally chartered S&Ls are allowed to make riskier loans other than residential mortgages; The regulator's thinking is that letting them chase higher returns will help them in the end. As a result of this change, the S&L industry is experiencing rapid growth. This growth was driven by deposit inflows, as zombie S&Ls offer very high interest rates for attracting deposits. These institutions started investing in riskier and riskier projects, hoping that they would pay higher returns and also be able to pay bank depositors at high interest rates.

Like Black Monday, much fraud took place. Instead of admitting bankruptcy, weak regulatory oversight allowed some S&L CEOs to operate Ponzi schemes using creative accounting strategies. The delay in closing the bankrupt S&L made the crisis escalate. Regulators could have avoided such a major crisis by closing zombie institutions in 1983 (Alrifai, 2015).

6) *Japanese Asset Bubble*

A Bubble economy refers to the economic crisis caused by an increase in public consumption, which led to an increase in asset prices in Japan. The increase in asset prices stems from the appreciation in the yen's value after the Plaza Accord was agreed through a meeting held in New York on September 22, 1985. The appreciation in the value of the currency then resulted in an increase in stock prices

up to 150% in 1989. The price of land assets in Japan also increased. Although gradually and reached its highest point in 1990, the price increase was triggered by the increase in land transactions in Tokyo in 1986-1987. The increase in land prices then spread to other cities such as Osaka, Nagoya and several other cities in the middle of 1987. Previously, The increase in asset prices was followed by a drastic decline in stock prices in Japan by more than 60% in August 1992. At that time, Japanese banks assumed that the decline in asset prices was only temporary and would improve gradually. To offset the decline in asset prices, the BOJ implemented a zero interest policy from April 1999 to August 2000. However, asset prices continued to decline, which led to banks' accumulation of bad loans and worsened of Japanese economy in 1997 (Araki, 2005).

7) *Mexican Peso Crisis*

The Pacto program at the end of 1987 was allegedly the cause of the Mexican Peso exchange rate crisis. This program was initially aimed at controlling prices, exchange rates, and increasing wage rates. It became a boomerang for Mexico. The Pacto program, on the one hand, managed to maintain the fiscal balance until 1992, and the inflation rate was controlled below 1 digit. However, on the other hand, the Pacto program was not supported by consistent macroeconomic policies, such as an unstable political situation, and the exchange rate policy still adhered to the Currency Peg to USD.

Sufficient foreign exchange reserves do not accompany the fixed exchange rate system implemented in Mexico to maintain the fixed exchange rate. The Peso currency was then devalued, which then caused concern for investors and triggered a massive capital outflow quickly. The worsening political situation following the Chiapas incident and the assassination of a presidential candidate, coupled with investors' fears of a government default due to the maturity of Tesobonos and Cetes (government debt), resulted in worsening economic conditions (Musacchio, 2012).

8) *Asian Financial Crisis*

The Asian crisis that occurred in 1997 originated in Southeast Asia. This crisis caused severe shocks to the Southeast Asian economy, which spread to other regions such as Korea, Taiwan and Hong Kong. A continuous current account deficit caused the Asian crisis because export-import activities supported the rapid economic growth of Southeast Asian countries. Another factor that caused the Asian crisis was the high dependence of Southeast Asian countries on foreign funds, foreign loans to finance development, and increased economic growth. In addition, before the crisis occurred, Indonesia, Thailand, Malaysia, Singapore and the Philippines are included in the tigers of Asia, so many foreign countries have come to offer assistance and invest in these Southeast Asian countries. This inability to pay foreign debts eventually led to over-inflation conditions that made the exchange rates of Southeast Asian countries plummet.

Another factor that also caused the 1997 Asian crisis was poor economic regulation. Foreign investors investing in Southeast Asian countries did not consider the economic policies taken by these countries. One of the current adverse policies is the fixed exchange rate which is vulnerable to speculators. In the end, investors decide to withdraw their funds to avoid losses (Noerlina & Dewi, 2003).

9) *Russian Financial Crisis*

Russia faced several internal problems in 1998, the economic costs of the war in Chechnya, the tension in the political situation, the decline in the number of foreign exchange reserves, coal miners on strike because their wages had not been further exacerbated the political crisis in Russia. In August 1998, the financial crisis hit Russia. It is estimated that between October 1, 1997 and August 17, 1998, the Central Bank of Russia spent about \$27 billion of Russia's foreign exchange reserves to maintain a floating ruble. The decline in state reserves and revenues from oil exports has worried foreign investors, especially since the Asian financial crisis is still ongoing. Fearing a ruble 's devaluation, foreign investors withdrew their funds, causing stock, bond and currency markets to crash. In September 1998, The Central Bank of the Russian Federation decided to abandon the restricted floating currency policy and switch to a free floating currency policy. Then on September 21, 1998 the exchange rate reached 21 rubles per US dollar, meaning the ruble had lost two-thirds of its value in the previous month. Several banks were closed due to the crisis. Russia's inflation reached 84%, the price of groceries rose by 100%, and the price of imported goods quadrupled (Alrifai, 2015).

10) *Dot-com Bubble*

The Dot-com bubble is a bubble event in the stock market of information technology or internet-based companies in the United States in 2000. This bubble occurred when the trend of using internet technology increased because of massive-speculation on internet companies that are considered to generate significant profits or cash flow in the future. As a result, the overvaluation of internet companies has occurred. Many internet companies that do not have prices are overpriced. This overvaluation creates a bubble. Increased confidence in the future of the internet has also led to increased IPO activities for internet companies. The high emergence of venture capital companies also triggered the bubble.

Increasing the use of venture capital funds for advertising and speculative actions on internet technology companies' stock market increased the share of internet technology companies significantly. The Nasdaq stock index, dominated by internet companies, soared more than 500%. However, in October 1999 internet companies began to suffer losses due to excessive investment, especially in massive advertising spending, while revenues tended to stagnate or even decline. At almost the same time, the Fed raised interest rates to 6.5% in May 2000, which caused the yield curve to invert so that it began to threaten the United States economy as a whole. In addition, investors are starting to notice the overvaluation of Internet companies' stocks. Finally in April 2000, the Nasdaq stock index fell 35% (Ofek & Richardson, 2003).

11) *Suprime Mortgage Crisis*

A *Subprime mortgage* is a type of homeownership loan offered to individuals with the highest risk, which do not meet the requirements for receiving prime mortgages. Due to an excessively high debt-to-income ratio, poor credit history or history of property rental payments, and individual incompetence to submit the required documents. Consequently, administrative costs and higher interest rates reach 200-300 basis points compared to the interest charged to prime mortgage borrowers. Subprime mortgage products are much accessible than other housing products and are more attractive to lenders because of their high returns.

The subprime mortgage crisis spread rapidly due to the inability of the subprime mortgage creditors to pay their debt installments en masse, the weak liquidity of financial and banking institutions due to a combination of high creditor defaults, a decrease in the value of confiscated collateral, the obligation of banks/credit-providing institutions to fulfill their obligations to pay investment returns; financial difficulties of investors holding bonds, both individuals and corporations due to the decline in the value of their investments, thereby reducing consumption levels for individual investors and expansion rates for corporate investors; United States government policy in playing interest rate instruments; and the open economy of the United States. The impact of the subprime mortgage spread to various sectors of the United States economy and caused a contraction in economic growth. Negative public sentiment continues to accompany the announcement of the company's balance sheet position, including financial institutions which are not favorable. The level of confidence in the vitality of banks and other financial institutions is decreasing. Ownership of subprime mortgage debt in the United States and Australia, China, India, Taiwan and other countries. These countries also impact the decline in stock prices. In turn, sparked concerns among market players because bank problems would weaken economic activit (Tim Kajian Pusat Kebijakan Ekonomi Makro Kemenkeu RI, 2012).

12) *European Crisis*

The budget crisis that occurred in Europe began when the Greek government found that the previous government did not report the actual size of the budget deficit in 2009. This crisis then spread to Ireland, Portugal, Italy, and Spain, having budget deficit problems and debt burdens. The debt crisis in several European countries then impacted the European banking system and European macroeconomic fundamentals. The crisis caused capital outflows from several large European banks. On the other hand, European banks had difficulty obtaining capital loans from the private sector. Weak economic growth and high unemployment are also significant problems. Structural problems in the labor market and high production costs in crisis-affected European countries faced by crisis-affected countries, hurting industrial production and a higher trade deficit (Tim Kajian Pusat Kebijakan Ekonomi Makro Kemenkeu RI, 2012).

Based on the description above, the typology of the financial crisis can be seen as follows:

Table 1. Typology of the Global Financial Crisis

No.	Crisis Began	Crisis Name	Crisis Trigger	Crisis Typology
1.	1929	Wall Street Crash of 1929 and Great Depression	Stock Market Crash	Speculative bubbles and Crash
2.	1973	Oil Crisis	Oil Price Shock	Energy Crisis
3.	1982	Latin American Debt Crisis	Debt Default	Sovereign Default
4.	1987	Black Monday	Stock Market Crash	Speculative bubbles and Crash
5.	1989	US Savings & Loan Crisis	S & L failures	Speculative bubbles and Crash
6.	1990	Japanese Asset Bubble	Real Estate Bubble	Speculative bubbles and Crash
7.	1994	Mexican Peso Crisis	Currency Crisis	Balance of payment crisis and Sovereign Default
8.	1997	Asian Financial Crisis	Currency Crisis	Sovereign Default and systemic banking crisis
9.	1998	Russian Financial Crisis	Currency Crisis	Balance of payment crisis
10.	2000	Dot-com Bubble	Stock Market Bubble	Speculative bubbles and Crash
11.	2008	Suprim Mortgage Crisis	Real Estate Bubble	Speculative bubbles and Crash
12.	2009	European Crisis	Debt Default	Sovereign Default

The table above shows that there are 5 (five) typologies of the global financial crisis, namely: 1) Speculative bubbles and Crash, 2) Sovereign Default, 3) Balance of payment crisis, 4) systemic banking crisis, and 5) Energy Crisis. Speculative bubbles and Crash typologies include the Wall Street Crash of 1929 and the Great Depression, Black Monday, Japanese Asset Bubble, Dot-com Bubble, US Saving & Loan Crisis, and the Suprime Mortgage Crisis. The crisis with this typology has occurred the most in the history of the global financial crisis. Furthermore, the financial crisis typology of Sovereign Default is Latin American Debt Crisis, Mexican Peso Crisis, Asian Financial Crisis, and European crisis. The balance of payment crisis is the Mexican Peso Crisis and the Russian Financial Crisis.

Solutions to Overcome the Financial Crisis in the Perspective of Islamic Economics

The occurrence of financial crises in Islam cannot be separated from practices or economic activities that are contrary to Islamic values, such as the act of consuming *riba*, monopoly, corruption, and other malpractice acts. Suppose

economic actors are accustomed to acting outside divine economic guidance. In that case, it is not an exaggeration if the economic crisis that has hit us is a catastrophe that is deliberately invited to come, which is as stated in the Q.S Ar-Rum: 41:

"Corruption has appeared in the world and in the sea due to the actions of human hands, so that Allah may feel for them some of the (results of) their actions, so that they return (to the right path)"

Carrying out economic practices that are contrary to Islamic law is an act that will harm oneself and damage the foundations of the people's economic life. Because every divine rule always contains benefits for the people both in this world and in the hereafter. On the other hand, any violation of Islamic law, whether intentionally or not, will surely invite direct or indirect calamity from Allah SWT. The financial crisis is one example of God's calamity or trial for His creatures who have gone too far in carrying out economic activities deviating from the tracks of the Qur'an and Sunnah, such as legalizing usury (Majid, 2015).

Akram Khan and Ariff say that to stabilize the economy, four instruments are needed as stabilizers, namely: a) the banking system must be free from interest (*riba*). Where interest is in addition to money deposited with financial institutions or to money lent. b) Money market that is free from speculation. The money market is in a continuous balance between wealth in the form of money and the actual value of shares. c) Fair wages, fair here means proportional (Hilman, 2017).

Islamic economics offers solutions to overcome the financial crisis so that it does not happen again in the future, namely: 1) Aligning world financial practices with sharia provisions in Islamic economics transactions that are not allowed include *riba*, *gharar*, *maysir*, and *tadlis*. The prohibition of *riba* is explicit with various forms of interest on loans. This prohibition is based not only on exploiting parties who need credit but rather on the creation a more equitable economic climate by moving the real sector. *Gharar* represents unclear information about something being transacted. Stock trading based on rumors is one type of this transaction. *Maysir* refers to speculative actions. 2) Enlarging the portion of equity financing compared to using the debt financing pattern. The spirit carried by Islamic economics is the distribution of capital to those in need through a profit and loss sharing scheme. Two things are aimed at, namely, the equitable distribution of capital and the movement of the real sector as a driving force for the community's economy. 3) Strengthening Micro, Small and Medium Enterprises (MSMEs). When large businesses fell due to the crisis, micro, small and medium enterprises that had been shaken could bounce back from adversity. 4) Develop the financial sector in line with the real sector. The trigger for the crisis was the deviation in the financial sector that played speculative activities. The financial sector, in this case, is not related at all to the real sector fundamentals. Meanwhile, in Islamic economics, The money supply is determined by the demand for the real sector. 5) Revitalize the use of Dinar and Dirham in financial and business transactions. One of the other offers of Islamic economics is a return to the Dinar and Dirham currency system. 6) They reworked the world's banking and financial systems. *Riba* and *maysir* are the main

causes of the financial crisis. Therefore it is necessary to redesign the banking and financial system by applying Islamic values (Ali, 2009).

Islamic economics is the only best solution to prevent the financial crisis. An Islamic economic system that is free from *riba*, *gharar* and *maysir*. Besides the dangers of *riba* and foreign debt on the economic journey, it turns out that the moral values (*akhlakul karimah*) of the government and business people play an essential role in efforts to avoid and overcome financial crises (Majid, 2015).

Based on the description, the author believes that Islamic economics has offered a solution so that the financial crisis does not occur again in the future. The principle of prohibiting transactions of *riba*, *maysir* and *gharar* in Islamic economics has offered a solution to the financial crisis typology of Speculative bubbles and Crash. The existence of the principle of equity financing in Islamic economics is a solution to the financial crisis typology of Sovereign Default. Furthermore, Islamic economics prioritizes the financial sector, which is in line with the real sector as a solution to the financial crisis typology of the Balance of payment crisis. Finally, the moral values (*akhlakul karimah*) that exist in Islamic are a solution to the occurrence of a financial crisis that comes from moral hazard.

CONCLUSION

Based on the description above, it can be concluded that there are 5 (five) typologies of the global financial crisis, namely: 1) Speculative bubbles and Crash, 2) Sovereign Default, 3) Balance of payment crisis, 4) systemic banking crisis and 5) Energy Crisis. The financial crises, including the typology of Speculative bubbles and Crash are Wall Street Crash of 1929 and Great Depression, Black Monday, Japanese Asset Bubble, Dot-com Bubble, US Saving & Loan Crisis, and Suprime Mortgage Crisis. The crisis with this typology has occurred the most in the history of the global financial crisis. Furthermore, the financial crisis typology of Sovereign Default is Latin American Debt Crisis, Mexican Peso Crisis, Asian Financial Crisis, and European crisis. The balance of payment crisis is the Mexican Peso Crisis and the Russian Financial Crisis.

Islamic economics has offered a solution so that the financial crisis does not recur in the future. The principle of prohibiting transactions of *riba*, *maysir* and *gharar* in Islamic economics has offered a solution to the financial crisis typology of Speculative bubbles and Crash. The existence of the principle of equity financing in Islamic economics is a solution to the financial crisis typology of Sovereign Default. Furthermore, Islamic economics prioritizes the financial sector which is in line with the real sector as a solution to the financial crisis typology of the Balance of payment crisis. Finally, the moral values (*akhlakul karimah*) that exist in Islamic are a solution to the occurrence of a financial crisis that comes from moral hazard.

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