Economic Crisis and Institutional Transformation: Comparative Analysis of Indonesia 1998 and Greece 2009

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I. Introduction

There is abundant literature in the debate over the economic crisis and its effect on one or a group of countries. The study of the economic crisis has also come from diverse academic backgrounds, from Economics to Political Science and Sociology. Rather than retelling the story of the economic crisis and its consequences on a given country, this thesis examines the transformation of state institutions following the economic crisis. Most nations have been through an economic crisis, but the degree of transformation within the institution varies among them. Even where the crisis is similar, the transformation has some degree of differences from one country to another. Thus, comparative research that analysed several countries from different crises will be valuable in gaining insight into their pattern, similarities, and differences.

This thesis will study two countries from a comparative perspective: Indonesia and Greece. They went through a substantial economic crisis that transformed state institutions in Asian Financial Crisis and Euro Crisis, respectively. I utilise the Historical Institutionalism concept of critical juncture to approach the economic crisis due to its distinctive factor in institutional development in the long run.[1] As the literature suggests, a severe economic crisis transforms the state institution through a series of decisions. A sudden and extreme economic shock disrupts the status quo, pushing the political regime to change. The changing political regime will lead to a different decision pattern from the previous one, leading to a different path of institutional development that contrasts with their past trajectory.[2] This decision is not only influenced by the internal actors, but as this study will show, external actors will have a heavy intervention in deciding the policy.

Managing economic crises requires multisectoral policy-making that will transform the state institution as a whole. With respect to the complexity of crisis management, this thesis will focus on the macroeconomic policy taken by the central government during the crisis. Previous studies have discussed the Indonesian and Greek cases independently, given that both

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[1] Giovanni Capoccia and R. Daniel Kelemen, 'The Study of Critical Junctures: Theory, Narrative, and Counterfactuals in Historical Institutionalism', *World Politics* 59, no. 3 (2007): 341–69; Hidetaka Yoshimatsu, 'Critical Junctures and Institution-Building: Regional Cooperation on Free Trade and Food Security in East Asia', *The Pacific Review* 29, no. 5 (19 October 2016): 693–715, https://doi.org/10.1080/09512748.2015.1041420; Giovanni Capoccia, 'Critical Junctures and Institutional Change', in *Advances in Comparative-Historical Analysis*, ed. James Mahoney and Kathleen Thelen, 1st ed. (Cambridge University Press, 2015), 147–79, https://doi.org/10.1017/CBO9781316273104.007.

[2] James Mahoney, 'Path-Dependent Explanations of Regime Change: Central America in Comparative Perspective', *Studies in Comparative International Development* 36, no. 1 (March 2001): 111–41, https://doi.org/10.1007/BF02687587.

countries went through a similar chaotic domestic political turmoil and harsh international intervention through IMF bailout assistance and its following conditionalities. This study will extend the discussion by asking how the economic crisis transforms national institutions in managing their macroeconomic policies.

The objective of change in macroeconomic policies is to recover the national economy. This process involved a heavy influence from international institutions, namely the IMF, in which they provide assistance and conditionalities. As a result, both countries had to deliver unfavourable austerity measures. Despite this similar IMF involvement and influence over the macroeconomic policies, both countries had different results. Indonesia rebounded its economic growth in three years, returned the government debt to the pre-crisis level in three years, and paid the IMF debt in eight years. On the other hand, even after seven years, Greece remains in negative growth, stratospheric government debt, and debt to the IMF. To this puzzle, this thesis asks why one state institution was able to go through more substantive transformations compared to others.

Lastly, as the IMF had a critical influence on crisis management and pushed the national government to transform its institutions, this study will ask how the IMF, as an international institution influences the transformation process. Previous studies on IMF's influence in crisis management either focus on individual cases, regional cases[3], or general patterns at the global level.[4] As this study has a cross-region and cross-time case, it will see the differences and similarities of approaches taken by the IMF. From these questions, this thesis aims for three major contributions. First, building the concept of institutional transformation as the consequence of a critical conjuncture in institutional development. Second, contribute to the development of cross-time and space analysis of comparative political economy literature. Lastly, providing policy reflection for policymakers when another economic crisis hits in the future.

This thesis proposes a new understanding of economic crisis on institutional change, drawing insights from Historical Institutionalism of Political Sciences, International Relations, and Economic History. My main argument is that in spite of a continuous change in state

[3] Chris Rogers, *The IMF and European Economies: Crisis and Conditionality* (London: Palgrave Macmillan, 2012).

[4] Eva Riesenhuber, *The International Monetary Fund under Constraint: Legitimacy of Its Crisis Management* (The Hague: Kluwer Law International, 2001); Michael Breen, *The Politics of IMF Lending*, International Political Economy Series (London: Palgrave Macmillan, 2013); Axel Dreher, Jan-Egbert Sturm, and James Raymond Vreeland, 'Politics and IMF Conditionality', *Journal of Conflict Resolution* 59, no. 1 (1 February 2015): 120–48, https://doi.org/10.1177/0022002713499723.

institutions, the economic crisis provides two novel insights into state institutional transformation. First, the force to change did not only come from within the state, such as a democratic election that redirects policy choices or rearrangement of oligarch surrounding the head of government but also an external economic shock that brings in international actors that hold some degree of power to redirect the state macroeconomic policies in a pressuring time.

Second, the crisis proves that the previous transformation was insufficient or went in the wrong direction. By examining the Indonesian and Greece cases, prior to the crisis, both had efforts to reform their economic and political institutions. The motivation for reform came from within, changing the political economic configuration for Indonesia and democratisation for Greece, and from the external condition, gradual East Asian trade liberalisation for Indonesia and introduction of the European Monetary Union for Greece. However, the severity of the crisis in the respective country proves that the reform was insufficient due to the reform did not tackle the core institutional problem, which concentrated on corruption and government credibility. The crisis provides a major force to transform the institution more substantially by embedding the reform into the crisis. This transformation was pushed both by domestic and international actors. However, as the transformation changed the institutional arrangements of respective countries, the debate was heated between two opposite ideological forces. As a consequence, the reform did not fully reach its potential and had to calibrate between the two.

This thesis will be organised as follows. Section II will discuss the existing literature on the economic crisis and its place in the institutional analysis of the comparative political economy and offer the concept of Institutional Transformation. On the latter, Karl Polanyi's *The Great Transformation* provide the ground inspiration.[5] Then, to organise the research inquiry, section III will discuss the methodological framework of this thesis. Sections IV and V will delve into the brief state of crisis and previous reform attempts in Indonesia and Greece, respectively. Section VI will compare the two cases using the institutional transformation framework I developed in Section II. Lastly, section VII will draw the conclusion from the discussion.

[5] Karl Polanyi, *The Great Transformation: The Political and Economic Origin of Our Time*, 2nd ed. (Boston: Beacon Press, 2001).

II. Theoretical Framework

Economic Crisis and Institutions

The institution has been the central point of Political Science for the past few decades. Institutions emerged, changed, and sometimes decayed throughout time. This thesis will define institutions as a man-made mode of governance that build a set of rules that shape the behaviour of its member, and it does not always translate into a legal-formal organisation.[6] By this definition, this thesis will focus on the state institutions where political and economic constraints are embroiled in decision-making towards economic policies during the economic crisis.

Traditionally, political scientists tend to underestimate the effects of an economic crisis on state institutions. Two major problems emerged from previous research, the tendency to explain continuity rather than a change in state institutions and the predominance of advanced Western countries as the paradigmatic case.[7] The absence of severe economic crisis in the advanced economies after the Great Depression and World War II also contributes to the minimal theorisation of economic crisis and state institutions, despite the wave of New Institutionalism in Political Science subfields such as Comparative Politics and International Relations since the 1980s.[8]

In Comparative Politics, the economic crisis has taken part in various research on understanding state institutions. In explaining continuity, Comparative Political Scientists tried to explain the existence of institutions from the rational choice theory of the actor. The state, or any other actor, chooses to coalesce into an institution because they perceive more benefits for being part of an institution, ranging from political to economic benefits. Thus, to continue its existence, an institution should provide public goods for its members. This perspective applies to the state as an institution too, where its citizens, as members, seek greater benefits and certainty in exchange for their political and economic cost. In this regard, institutions are

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[6] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), https://doi.org/10.1017/CBO9780511808678; Ellen M. Immergut, 'Institutions and Institutionalism', in *International Encyclopedia of Political Science*, ed. Bertrand Badie, Dirk Berg-Schlosser, and Leonardo Morlino (London: SAGE Publications Ltd, 2011).

[7] Wolfgang Streeck and Kathleen Thelen, 'Introduction: Institutional Change in Advanced Political Economies', in *Beyond Continuity: Institutional Change in Advanced Political Economies*, ed. Wolfgang Streeck and Kathleen Thelen (Oxford: Oxford University Press, 2005), 1–39; James Mahoney and Kathleen Thelen, 'A Theory of Gradual Institutional Change', in *Explaining Institutional Change*, ed. James Mahoney and Kathleen Thelen (Cambridge: Cambridge University Press, 2009), 1–37, https://doi.org/10.1017/CBO9780511806414.003.

[8] B. Guy Peters, *Institutional Theory in Political Science: The New Institutionalism*, 4th ed. (Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing, 2019).

assumed to be well-designed to resilient in a time of crisis.[9] Therefore, despite any crisis, the institution will continue without significant disruption or change to respond to the shock because they believe that their institutions are resilient enough.

Another camp in Comparative Politics follows the influential work of Peter A. Hall on comparing institutions through the lens of interests, institutions, and ideas.[10] He categorised three major approaches in comparing the political economic conditions of a group of countries: the interest of principal actors that hold the authority to make a decision, institutional design and settings that influence state policy, and different ideational backgrounds that influence policy preference.[11] However, his assessment remained biased on the experience of developed countries. Deriving data from advanced economies will be incapable of capturing a similar process in developing countries, especially when experiencing a radical change due to external forces. Thus, in this research, I involve Indonesia as a developing economy during the economic crisis. Furthermore, it should be noted that not all advanced economies are in the same condition. The divergent result of the Eurozone crisis proves that although most countries are categorised as advanced economies, they have dissimilar results when the crisis hits. Here, the Greek case will show how an advanced economy country might suffer a substantial institutional change due to an economic crisis.

As a consequence, previous research treated developing and developed economies differently. The focus of research on developing economies mostly examines its impact on developing progress, while it less appeared on developed economies research.[12] This tendency to blame the weak institutions of developing countries continues with the minimal evaluation of external and internal forces of institutional change and transformation. This issue was later solved by Gonzalez work, among others, that expanded Hall's approach into the developing countries by investigating the influence of economic crisis in Latin America's democratisation in the 1990s and early 2000s.[13] His study, nevertheless, provides a groundwork for

[9] North, *Institutions, Institutional Change and Economic Performance*.

[10] Peter A. Hall, 'The Role of Interests, Institutions, and Ideas in the Comparative Political Economy of the Industrialized Nations', in *Comparative Politics: Rationality, Culture, and Structure*, ed. Mark Irving Lichbach and Alan S. Zuckerman, 1st ed. (Cambridge: Cambridge University Press, 1997), 174–207.

[11] Hall.

[12] Ha-Joon Chang, 'Breaking the Mould: An Institutionalist Political Economy Alternative to the Neo-Liberal Theory of the Market and the State', *Cambridge Journal of Economics* 26, no. 5 (1 September 2002): 539–59, https://doi.org/10.1093/cje/26.5.539.

[13] Francisco E. Gonzalez, *Creative Destructions? Economic Crises and Democracy in Latin America* (Baltimore: John Hopkins University Press, 2012).

understanding the relationship between economic crisis and political change, which in his case was on the democratisation process.

In International Relations, the issue was also perpetuated by the American-centric approach to the discipline throughout the Cold War. In understanding the world, they were focused on how the US and its Western allies compete strategically with the USSR. Their focus on great power politics creates twofold problems. On the one hand, the states that not being considered as a great power are assumed to have less relevance in understanding global events. It is clear in Realist IR Theory that the mainstream explanation of how the international system or regime could change is the occurrence of a great war of great powers.[14] An international institution, therefore, as Realist IR suggests, is the tool for the great powers to maintain their hegemony over the international system.

In discussing international institutions, Liberal IR believes that despite the power imbalance among the states, they are able to coordinate and cooperate through institutions.[15] This theory follows the rationalist assumption that institutions are designed to accommodate the state to push their national interest into the institutional design and agenda through negotiations, which in the end, will give some degree of mutual benefit.[16] Therefore, following this logic, institutional change and transformation result from state bargaining and negotiation. Their motivation in making these efforts is twofold, on the one side, they want to project their status in the international order and on the other side, they want to maximise their benefits from the rules of the game of the institutions.[17] This negotiation was present in

It is not surprising that most literature discussing the oil crisis of 1970s and Latin American crisis of 1980s centred their explanation on the competition of great powers and pushing the other to follow the international rules they set. By the end of the Cold War, Constructivism wave emerged in IR literature, discussing the underlying assumption of international politics, from the norm of institutions to the state ideational construction towards international politics. It is important to note that Constructivist scholarship provides insightful

[14] For example, Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1983).
[15] Robert O. Keohane, *International Institutions And State Power: Essays In International Relations Theory* (New York: Routledge, 1989), https://doi.org/10.4324/9780429032967.
[16] Barbara Koremenos, Charles Lipson, and Duncan Snidal, 'The Rational Design of International Institutions', in *The Rational Design of International Institutions*, ed. Barbara Koremenos, Charles Lipson, and Duncan Snidal (Cambridge: Cambridge University Press, 2003), 1–40.
[17] Phillip Y. Lipscy, *Renegotiating the World Order: Institutional Change in International Relations* (Cambridge: Cambridge University Press, 2017), https://doi.org/10.1017/9781316570463.

questions by asking who diffuses the norm, its objective, and how it diffuses.[18] In this regard, the role of the IMF as an international institution in imposing austerity in macroeconomic policy will be part of the analysis in the following sections.

Approaching Institutional Transformation

In their monumental book, Acemoglu and Robinson argued that the institution determines whether a state will fail or flourish.[19] When the state can transform its institution from an extractive to an inclusive one, it will bring prosperity to the people. An extractive institution, as they argued, designed the rule of law to extract the wealth of the state for a few people. This design will create conflict in society due to economic imbalances. Therefore, when the state is stuck in an extractive institution, it will fail to bring prosperity. The critical conjuncture of state institutions, whether they will remain extractive or transform into inclusive ones, was a conflict, either whether internal or external[20]

This book is important for this thesis for two main reasons. First, it brings an institutional paradigm through comparative historical political economic analysis on whether a country succeeded or failed in transforming its institution. Second, it provides a new perspective on the critical conjuncture of a conflict in determining the direction of institutional transformation. Despite these contributions, *Why Nations Fail* raises two new problems. First, when indicating the success or failure of a country, the book relies on a very broad term of prosperity. They overlook the short-term progress by examining the long-run trends of prosperity and poverty. This broad approach continues to the second problem, where the book defines the critical conjuncture on the conflict in too broad terms, ranging from an anti-colonial persistence to an intra-European war. To overcome these problems, I will narrow down the abstraction in this thesis. A critical conjuncture cannot be run in a continuous, long -erm process. Thus, in this thesis, a severe economic crisis will serve as the critical conjuncture due to its effects on how the state institutions manage its economy. Furthermore, the degree of success that I determine is on its economic performance after recovering from the crisis.

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[18] Kathryn Sikkink, 'Transnational Politics, International Relations Theory, and Human Rights', *PS: Political Science and Politics* 31, no. 3 (1998): 517–23, https://doi.org/10.2307/420610; Carla Winston, 'Norm Structure, Diffusion, and Evolution: A Conceptual Approach', *European Journal of International Relations* 24, no. 3 (1 September 2018): 638–61, https://doi.org/10.1177/1354066117720794.

[19] Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity and Poverty* (London: Profile Books, 2012), http://ebookcentral.proquest.com/lib/eui/detail.action?docID=1743163.

[20] Acemoglu and Robinson.

Another issue that emerged in this thesis is how to identify the transformation. In understanding Institutional Transformation, I am inspired by Karl Polanyi's *The Great Transformation*. This thesis, however, will contextualise Polanyi's conception of three major ideas: (1) transformation, (2) embeddedness, and (3) double movement. In Polanyi's conception, transformation is the result of a long-term process of industrialisation, thus resulting in the transformation of society.[21] Despite giving an insightful explanation on how society transforms from one state to another, this long-term perspective should be complemented by a short-term consideration. In this thesis, I frame the transformation as the result of both short-term extreme shock and long-term political economic processes of institutionalisation; thus, the transformation has occurred within the institution.

The transformation is defined in three major aspects: (1) policy changes, (2) embeddedness, and (3) double movement. On policy change, as the economic crisis pulled the IMF to being involved in crisis management, they came up with austerity measures to impose fiscal discipline. In both countries, pre-crisis governments adopt some welfare and industrial policies. As the crisis restricted government fiscal capacity, it definitely changed the policy on budget allocation.

On the embeddedness, in Polanyi's conception, pre-industrial revolution society has the market embedded in the societal logic, while after the industrialisation, the transformation reverses the condition where the society is embedded in the logic of the market.[22] Following Polanyi, Ruggie also mentioned that the post-war order was the era of 'embedded liberalism', where on the one hand, a hegemonic state of the United States had the ability to project their national economic interest into the liberal internationalism project, and on the other hand it was also compromising they compromise the liberalism with economic nationalism.[23] This condition will change later as neoliberal globalisation becomes the mainstream policy, and once again, when the 2008 global financial crisis hit.

Reflecting on these two theoretical grounds, I bring the concept of embeddedness into the state institutions. In this thesis, the economic crisis contributes to the embeddedness of crisis as one of the major considerations in the policy-making process due to the collective trauma of crisis, while previously, it had little to none in policy consideration. Here, the policies

[21] Polanyi, *The Great Transformation: The Political and Economic Origin of Our Time*.
[22] Polanyi.
[23] John Gerard Ruggie, 'International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order', *International Organization* 36, no. 2 (1982): 379–415.

that led to its financial fragility are the main force behind the state institutions to embed the political and economic risk, both within and within the state and international financial environments. The state cannot deny that financial globalisation reduced its ability to control the market. Therefore, they should consider this in rebuilding the institutions after the crisis.

Lastly, for Polanyi, double movement is the two diverging forces of ideological orientation between the laissez-faire economics that urge the expansion of the market on the one hand and protectionist countermovement that resist the embeddedness of the economy on the other hand.[24] In this thesis, I acquire this logic by observing two different policy orientations, where one movement towards neoliberal policies is working on the one hand, while the resistance also occurred on the other hand by insisting on government involvement in the policy for post-crisis recovery. This analysis will focus on the actors who push for each side of the movement and their policy preferences.

[24] Polanyi, *The Great Transformation: The Political and Economic Origin of Our Time*.

III. Methodological Framework

Comparative Historical Political Economy Analysis

To refine how an economic crisis transforms the state institution, it is important to note that it is implausible to separate the economics and politics of an economic crisis. An economic crisis has both economic and political dimensions as well as impacts both the economic and political institutions of the state. Furthermore, to avoid over-explanatory and descriptive analysis, the Political Economic analysis will draw from the comparative and international viewpoint in this thesis. A comparative analysis of the crisis will be suitable for understanding the similarities and differences between the Indonesian and Greek cases. In contrast, the international analysis will provide the international context and unfold the role of international institutions in influencing the transformation of national institutions.

Previous research on crisis and institutional change mainly focuses on advanced industrialised economies.[25] Despite this concentration, several studies have utilised the theory and method that aimed to analyse the advanced and industrialised states in developing countries. For instance, Gonzalez's research on Latin America utilises Hall's[26] approaches to analyse the role of interests, institutions, and ideas of the industrialised nations in developing countries in Latin America.[27] Another study by Choi and Joo has touched on the cross-time and area analysis of the crisis by comparing the crisis reform between South Korea and Greece.[28] However, their study was unrepresentative because South Korea did not consider the country most impacted by the 1997 Asian Financial Crisis, while Greece was the worst in the Eurozone crisis.

Why Indonesia and Greece?

The tendency to focus on advanced and industrialised economies rises due to the 'most similar system' research design in justifying the comparative analysis.[29] With respect to their justification, this thesis will use a different approach. Rather than focusing on the similarity of

[25] Ben Clift, *Comparative Political Economy: States, Markets, and Global Capitalism*, 2nd ed. (London: Red Globe Press, 2021); Streeck and Thelen, 'Introduction: Institutional Change in Advanced Political Economies'.
[26] Hall, 'The Role of Interests, Institutions, and Ideas in the Comparative Political Economy of the Industrialized Nations'.
[27] Gonzalez, *Creative Destructions? Economic Crises and Democracy in Latin America*.
[28] Byung-il Choi and Bora Joo, 'A Tale of Two Reforms: Korea vs Greece - Political Economy of Reform under Crisis and Bailout', *Korea Observer* 47, no. 1 (Spring 2016): 69–108.
[29] Clift, *Comparative Political Economy: States, Markets, and Global Capitalism*.

its industrialisation progress, the case is selected by using the 'most extreme case' method.[30] This method is justified through the extreme case with either a dependent or independent variable coming in extremely deviant compared to the mean of the case population.

In this study, I choose Indonesia and Greece for the following reason. Compared to other Asian countries during the 1997-1998 Asian Financial Crisis, Indonesia received the most impact, reflecting the largest economic growth shock. Another indicator that indicates the extremeness of Indonesia is the significant drop in its exchange rate. On the other hand, Greece was also experiencing a similar fate to Indonesia during the 2009 Euro Zone Crisis in terms of the steepest negative economic growth compared to other Eurozone countries. However, contrary to Indonesia, the crisis has no impact on the exchange rate of Greece due to its membership in the Euro monetary union. Instead, Greece had the most extreme spike in Debt to GDP ratio compared to other countries. Sections IV and V will further explain this justification.

Furthermore, as Seawright and Gerring noted, this method aims to maximise the variance on the dimension of interest, which has an exploratory nature of explanations.[31] This type of research can explore the data through various methods to explore a wide range of explanations.[32] This thesis will be derived from three main sources: (1) government policies, (2) secondary literature, and (3) policy makers obituary and notes. In government policies, I will examine the pattern of change in their economic policies during and after the economic crisis. However, to narrow the scope, only crisis recovery-related policies are being used in this research. Furthermore, I will also utilise secondary literature already written in analysing the economic crisis in Indonesia and Greece, which will help me shape the theoretical debates among academia. Lastly, I will also research the notes and obituary from the former policymakers involved during the crisis, contrasting their claim to the other resources.

Limitations

The first issue of this research comes from the nature of the research that seeks comparison rather than causal inference. Although a series of events in each case will have causality from

[30] Jason Seawright and John Gerring, 'Case Selection Techniques in Case Study Research: A Menu for Qualitative and Quantitative Options', *Political Research Quarterly* 61, no. 2 (June 2008): 294–308, https://doi.org/10.1177/1065912907313077.
[31] Seawright and Gerring.
[32] Richard Swedberg, 'Exploratory Research', in *The Production of Knowledge*, ed. Colin Elman, John Gerring, and James Mahoney, 1st ed. (Cambridge University Press, 2020), 17–41, https://doi.org/10.1017/9781108762519.002.

one policy to another, it is not the desired objective of this research. The second issue is the absence of paradigmatic cases of economic crises or institutional transformation. Indeed, the economic crisis has its own pattern and shows some similar poor policy choices.[33] However, it does not mean that the scientific community has a consensus on which case should be treated as paradigmatic. While some might argue that the Great Depression as the n = 1 in economic crisis study or Brazilian crisis in the 1990s as the model for twenty-first century financial crisis, this thesis did not follow this suggestion. As the following sections will show, despite similar trajectory of crisis, in detail, both cases went through different ways of transformation. The final limitation is derived from the small number of case selections. As mentioned above, this research will compare the 1998 Indonesian Crisis and the 2009 Greek Crisis and its consequence on the national institutions. Therefore, for future research, a broader set of countries will give a more valuable comparison and contribution to the conceptualisation of institutional transformation that is being offered in this thesis.

[33] Carmen M. Reinhart and Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton: Princeton University Press, 2009).

IV. Case I: Indonesia

The State of Crisis

The Asian Financial Crisis started in Thailand, where in July 1997, the Thai Baht loss 48.7 per cent of its value within six months. It triggered a massive capital outflow and later became a perfect example of a domino effect of an economic crisis when the currency exchange plummeted went to one country to another in East Asia. Indonesia was the last to join the crisis, but it was also the most unfortunate one. During the crisis, Indonesian GDP growth plunged to -13 per cent, the government debt-to-GDP ratio spiked to 72.5 per cent, the inflation rate surged by 75 per cent, and its currency rate against the US Dollar weakened by more than 80 per cent to its initial value in 1997. Its debt-to-GDP ratio also rose to an all-time high of 72 per cent. In addition to the economic crisis, Indonesia also went through a political and social crisis, indicated by mass protests from students, activists, and labour in major cities that led to President Suharto's resignation, the Timor-Timur referendum, and multiple ethnical and religious conflicts in many parts of the country. Many observers also belief that Balkanisation will happen in Indonesia at that time.[34] Therefore, many analysts say the Indonesian experience was a ‘twin crisis’ because of its ongoing political and economic crises.[35]

Other than the Timor-Timur independence that now became Timor Leste, Indonesia holds its territorial integrity and recovered its economic condition to the pre-crisis level within three years. In 2000, Indonesian GDP grew almost 5 per cent, continuing its positive trend until now. The government debt to GDP ratio also returns to the pre-crisis average of under 40 per cent in fiscal year 2000. In 2002, the inflation rate pulled down to 5.9 per cent and later, in 2006, the Indonesian government declared that it had paid all the debt to the IMF for its crisis recovery package years earlier than the deadline.[36]

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[34] Vedi R. Hadiz, ‘Indonesia: Order and Terror in a Time of Empire’, in *Empire and Neoliberalism in Asia* (Routledge, 2006).

[35] Haryo Aswicahyono, Kelly Bird, and Hal Hill, ‘Making Economic Policy in Weak, Democratic, Post-Crisis States: An Indonesian Case Study’, *World Development* 37, no. 2 (1 February 2009): 354–70, https://doi.org/10.1016/j.worlddev.2008.06.007.

[36] ‘Menelusuri Jejak Dana Bantuan IMF di Indonesia’, Bisnis.com, 7 September 2021, https://ekonomi.bisnis.com/read/20210907/9/1439093/menelusuri-jejak-dana-bantuan-imf-di-indonesia.

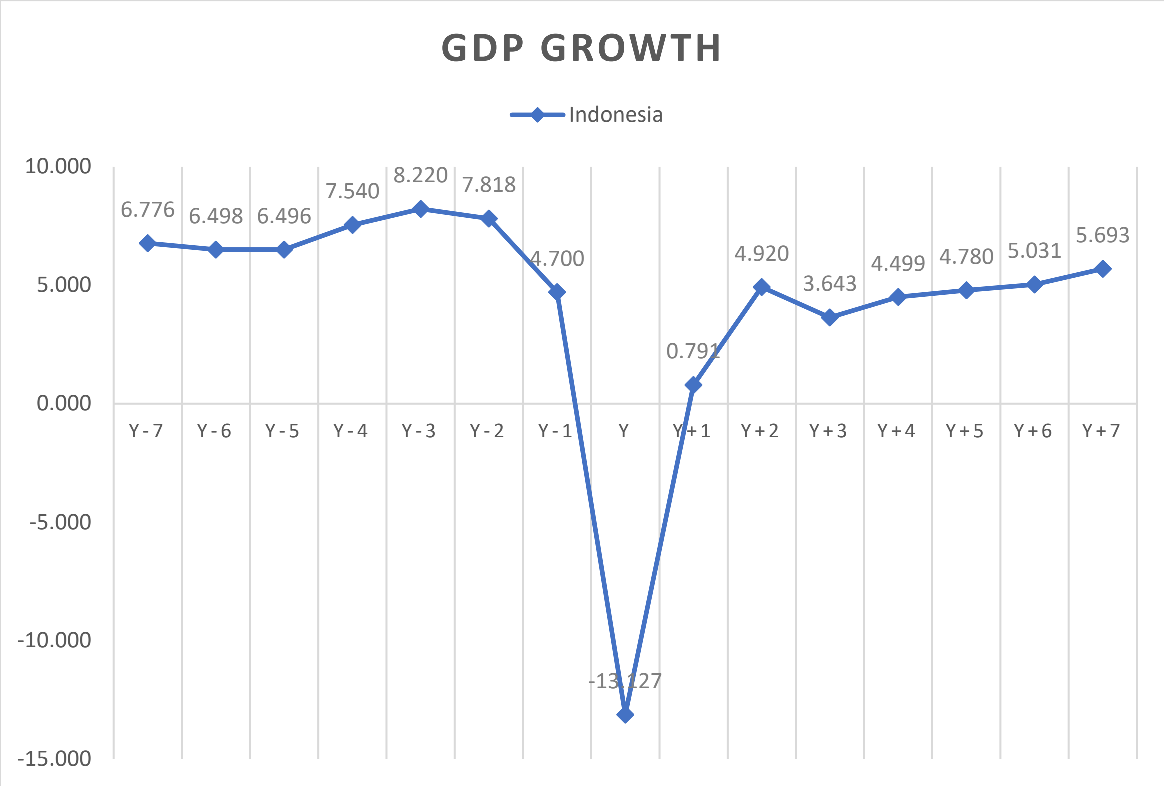

Figure 1 *Indonesia GDP Growth (y = 1998)*[37]

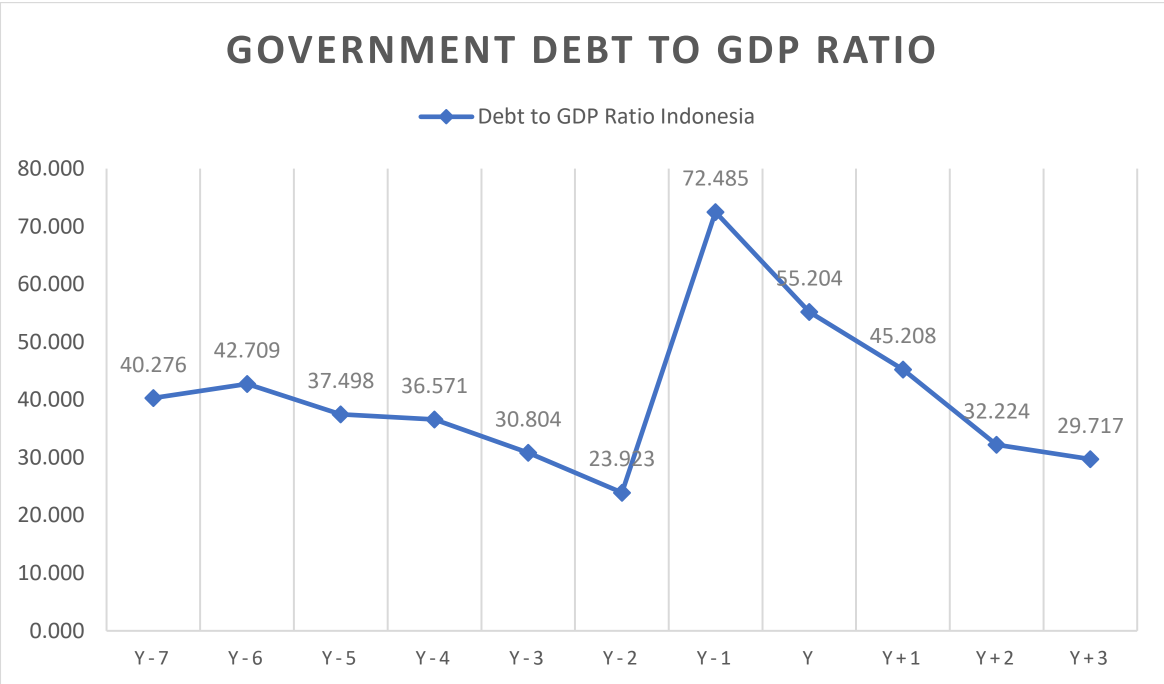

Figure 2 *Indonesia Government Debt to GDP Ratio (y=1998)*[38]

[37] 'World Bank Open Data', World Bank Open Data, accessed 15 May 2023, https://data.worldbank.org.
[38] 'World Bank Open Data'.

Reform before the Crisis

Before the crisis, Indonesia was often described as a country with not only a strong political concentration due to its authoritarian regime but also strong economic development due to its strong economic growth for three decades. The new Order of Suharto started in 1966 amidst political instabilities caused by an immature coup of the Communist Party, which led into a short period of '*vivere pericoloso*', a year of living dangerously, as described by Sukarno during his tipping period in power. It started by consolidating the political arrangement, and then as the natural resource extraction began, economic development became the regime's foundation, and economic reform underwent along with the development process. Nevertheless, this reform later proved as insufficient as it created a loophole for the crisis to grapple the government foundation as the problems accumulated in 1998. The major problem was that the reform could not redistribute the economic and political power from Suharto and its cronies before the crisis.

During his presidential period, Suharto laid its fiscal policy's foundation with three main objectives: ensuring macroeconomic stability, reducing dependence on foreign aid, and improving income distribution. Hill argued that macroeconomic stability was quite successful compared to other objectives, citing controlled inflation as the main indicator.[39] The number of people living in absolute poverty also fell rapidly from 40.1 per cent in 1976 to 11.3 per cent in 1996.[40] The success story of Indonesian development also got recognition from the international body, including The World Bank, which categorisess Indonesia as one of the Asian Tigers in its *East Asian Miracle* 1993 publication.[41] Despite these positive signs, three major Indonesian economic weaknesses during the Suharto era led to the fragility of external shock in the 1997 Asian Financial Crisis.

First, on the monetary policy, Indonesia struggled to maintain its exchange rate by injecting national savings. Before 1967, Indonesia followed the fixed-exchange system. As the economy opened, the government decided to follow the flexible exchange rate system, which lies between the fixed and floating one, allowing the government to intervene in the exchange rate. The government pegged Rupiah into Dollar in 1971, then devaluated Rupiah gradually to stabilise the domestic price. Then, as the government underwent economic reform to attract

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[39] Hal Hill, *The Indonesian Economy*, 2nd ed. (Cambridge: Cambridge University Press, 2000), https://doi.org/10.1017/CBO9780511818189.

[40] Kian Wie Thee, *Indonesia's Economy since Independence*, ISEAS Current Economic Affairs (Singapore: ISEAS–Yusof Ishak Institute, 2012), https://www.cambridge.org/core/books/indonesias-economy-since-independence/F37DB0306F97F3643C4B8C00DDB4DF07.

[41] The World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Washington, DC: The World Bank, 1993).

more foreign investment in 1986, they started to float the exchange rate, but it remained under the central bank's control and supervision. This attempt, as Hill argued, was too much. He mentioned that Indonesia had more control than its peers compared to other developing countries in Southeast Asia and Latin America.[42] Later, in August 1997, when the crisis pressured the Rupiah, the government floated Rupiah because of a rapid fall of its value against the US Dollar. Its value depreciated by 80 per cent in less than one year, and as a consequence, 40 billion US Dollars of capital flew outward from Indonesia.[43]

Second, on the market structure, Indonesia's major problem was its transition from resource-based growth to industrialisation managed by Suharto's crony, making the transition politically fragile. During the 1970s decade, thanks to the series of oil booms in the 1970s, the Indonesian government extract revenues from the oil industry to lay the foundation of its economic development. At its peak in 1981, oil and gas production contributed to 60 per cent if total government revenue before steadily declining in later years. Indeed, there was an attempt to distance economic growth from natural resource extraction. However, within the government body, two paradigms took Suharto's focus: manufacturing-based industrialisation, led by American-graduate economist Widjojo Nitisastro and high-technology-based industrialisation, led by German-graduate engineer Habibie.[44] Suharto then tried to balance the two camps, resulting in non-optimal support for either path.

However, it should be noted that Suharto's crony was heavily involved in the industrialisation process and, later, his children followed. It coincided with the government's effort to open the financial market and expand credit to private sectors. This effort was not followed by ensuring governance accountability, creating a fundamental risk in the national banking system. In 1995, there were 225 banks in Indonesia, with many of them related to the elite crony and oligarchs. Weak government surveillance and lack of Central Bank independence also pushed the moral hazard further and culminated in a spiking Non-Performing Loan in 1998 with over 50 per cent in 1998.[45] In the 1990s, Suharto's children were also incorporated into many national businesses, including the banking, media, and automotive industries. Consequently, the rise of public debt in the financial sector has become less prudent

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[42] Hill, *The Indonesian Economy*.

[43] Adrian Panggabean, 'Macroeconomic Recovery: Facts and Prospects', in *The Indonesian Crisis; A Human Development Perspective*, ed. Aris Ananta (Singapore: ISEAS–Yusof Ishak Institute, 2003), 29–52.

[44] Sulfikar Amir, *The Technological State in Indonesia: The Co-Constitution of High Technology and Authoritarian Politics* (New York: Routledge, 2013).

[45] Miranda S. Goeltom, *Essays in Macroeconomic Policy: The Indonesian Experience* (Jakarta: Gramedia Pustaka Utama, 2008).

due to a lack of accountability. The government debt also continued to rise, in 1990, foreign debt and aid financed more than 80 per cent of development expenditure because the government bureaucrats had gotten used to high dependence on the oil surplus in the previous decade.[46]

Third, the infamous KKN (*Korupsi, Kolusi, Nepotisme* – Corruption, Collusion, and Nepotism) is embedded inherently within government institutions. At first, the incorporation of small business actors into government developmental projects seemed to be a more efficient way to boost development progress. Suharto government also previously took several measures to combat corruption within the government. However, as it was shown in pre-crisis Indonesia, cronyism raised the transaction cost, more corruption, and greater instability due to its dependency towards the central figure of President Suharto.[47] Within his cronies, Suharto also played the ethnical game, where he gave the Chinese Indonesian more privilege in business, Christians in the military, and Javanese on politics, which later put another layer of social conflicts on top of the crisis and post-crisis economic recovery.

[46] Anne Booth, *The Indonesian Economy in the Nineteenth and Twentieth Centuries* (London: Palgrave Macmillan UK, 1998), https://doi.org/10.1057/9780333994962.
[47] David C. Kang, 'Transaction Costs and Crony Capitalism in East Asia', *Comparative Politics* 35, no. 4 (2003): 439–58, https://doi.org/10.2307/4150189.

V. Case II: Greece

The State of Crisis

The Eurozone Crisis was begun across the Atlantic in 2007, when the subprime mortgage crisis in the US started to topple several top-tier banks, including the monumental Lehman Brothers. As the epicentre of the crisis was at the world's most influential nations, economically and politically, the shockwaves were sent worldwide. Due to its close economic ties with the US, European markets received the strongest shockwave from the crisis, triggering a continental-wide concern. As early as 2007, German already bailout its Deutsche Industrialische Bank, BNP Paribas of French suspended a large amount of its investment funds, and Hungary was the first to request financial assistance from the EU.[48] Just like Indonesia in Asian Financial Crisis, Greece was among the last to get the impact of the crisis and become the most desperate one. During the crisis, Greece's GDP growth had a minus growth for five consecutive years, peaking at -10.2 per cent in 2011, its deficit was corrected several times until it peaked at 15.4 per cent in 2010, and the government debt to GDP ratio was started at 140 per cent in 2009 and continues to grow years after the crisis with 252 per cent in 2020.

In addition to the economic crisis, Greece also went through a political and social crisis. Its political landscape showed a leftist and populist surge in 2014 as a response to the unfavourable negotiation with the Troika. Even when Greece had to pay the debt to the IMF, it received a bad reputation as the first developed country to pay it later than the deadline. Greece also experienced mild social unrest, problems with its welfare system, and brain drain years after the crisis. With the continuous symptoms of the crisis, even a decade later, many remained to disagree with the claim that Greece had already took-off from the crisis.

[48] Dermot Hodson and Lucia Quaglia, 'European Perspectives on the Global Financial Crisis: Introduction*', *JCMS: Journal of Common Market Studies* 47, no. 5 (2009): 939–53, https://doi.org/10.1111/j.1468-5965.2009.02029.x.

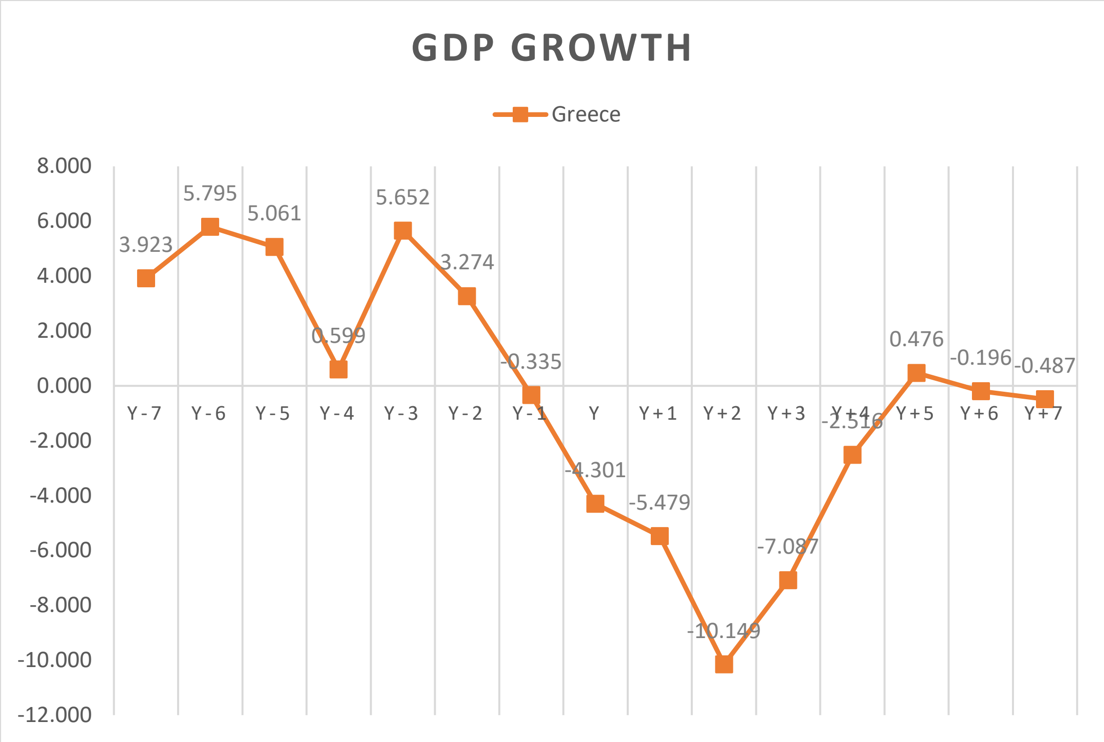

Figure 3 *Greece GDP Growth (y=2009)*[49]

Reform Before the Crisis

Greece went to a democratic system in 1974 after the fall of the military dictatorship. The civil government underwent a series of reforms, with a clear objective of catching up with other European economies. Their GDP per capita multiplied from 2,828 US Dollars in 1974 to 21,995 US Dollars in 2004, one of the most impressive growths in twentieth-century European. On the surface, the late 1990s to early 2000s were the golden years of Greece's economic development, with average GDP growth of 3.6 per cent from 1994-2007, well above the average EU-15 countries. In particular, fiscal and monetary disciplines set by the Maastricht Convergence Criteria to join the European Monetary Union and its single currency help the Greeks to reform its economy.[50] During this period, Greece's political landscape was quite stable, with two dominant political parties, PASOK and New Democracy.

Greece's institutions was claimed to be quite strong. Thus, some argued that the crisis was not the result of corrupt institutions but the failure of a democratic system to balance the populism within.[51] However, this claim overlooked the unfinished project of institutional

[49] 'World Bank Open Data'.
[50] Kevin Featherstone, 'Greece and EMU: Between External Empowerment and Domestic Vulnerability', *JCMS: Journal of Common Market Studies* 41, no. 5 (2003): 923–40, https://doi.org/10.1111/j.1468-5965.2003.00469.x.
[51] Takis S. Pappas, 'Why Greece Failed', *Journal of Democracy* 24, no. 2 (2013): 31–45, https://doi.org/10.1353/jod.2013.0035.

reform during the pre-crisis period. Its strong economic growth, as Mitsopoulos & Pelagidis argued, was supported by a weak institution.[52] Greece consistently ranked around the bottom of European countries in terms of productivity, competitiveness, and corruption index, indicating the institutional weakness of Greece's economy.[53] Despite various attempts to reform Greece's economic and political institutions, two layers of problem Greek macroeconomic foundations led to the fragility of its economic foundation in the 2009 Eurozone crisis.

On the first layer, unlike Indonesia in the 1998 Asian Financial Crisis or the US in the 2008 Global Financial Crisis, Greece was part of the European Monetary Union, including its common currency of the Euro. Europe was in the first decade of its courageous experiment with a single currency for dozens of countries with different economic backgrounds. Designed to take the side in the infamous Mundell-Fleming Trilemma by reducing the transaction cost of financial mobility and harmonising the exchange rate towards other currencies, Eurozone countries delegate their autonomy in monetary policy to the regional institution, primarily the European Central Bank (ECB). Despite heavy criticism over the economic sense of being eclipsed by political ambitions, Euro was successfully introduced in 1999 and became fully functional in 2002.

As many argued, the flaw in Euro institutional design was the core of the problem on why the crisis hit Eurozone countries badly, and even worse in Greece.[54] This institutional flaw was due to the primary objective of the Euro as a political project to unite Europe in the economic sense. Its primary objective as a political project was reflected in how the European policymakers defended Euro during the crisis. Angela Merkel said in front of the German Parliament said in 2011, “The Euro is the guarantor of a unified Europe (…) if the Euro collapses, Europe collapses”.[55] Mario Draghi, the director of the European Central Bank at that time, also infamously stated that he would do “whatever it takes” to save the Euro.[56] These moves further cemented the primacy of the Euro as a political project.

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[52] Michael Mitsopoulos and Theodore Pelagidis, *Understanding the Crisis in Greece: From Boom to Bust* (Basingstoke: Palgrave Macmillan, 2011).
[53] Panagiotis E. Petrakis, *The Greek Economy and the Crisis: Challenges and Responses* (London: Springer, 2012).
[54] Markus K. Brunnermeier, Harold James, and Jean-Pierre Landau, *The Euro and the Battle of Ideas* (Princeton: Princeton University Press, 2016).
[55] ‘“If the Euro Fails, Europe Fails”’, *BBC News*, accessed 25 April 2023, https://www.bbc.com/news/av/business-14827834.
[56] Dermot Hodson, ‘The Eurozone in 2012: Whatever It Takes to Preserve the Euro’, *Journal of Common Market Studies* 51 (2013): 183–200.

However, many political scientists and economists regret that Greece was not ready for the Euro in the very first place.[57] They noticed that the Greek economic foundation, such as in productivity and labour market, could not sustain the competition with other European countries, which would put Greece at a disadvantage against them. Even more, some of the critics noted that the European Monetary Union and Euro single currency was an example of political ideology triumph the economic sense.[58]

On top of that, Greece never fulfilled the Maastricht Convergence Criteria, yet it had already joined the Euro. According to the ECB, the criteria set for countries to converge into the Euro system are (1) national interest rate below 1.5 per cent, (2) government budget deficit below 3 per cent with public debt below 60 per cent of GDP, (3) interest rate below 2 per cent, and (4) maintaining a stable exchange rate with 2.25 per cent margin.[59] The crisis later highlighted the failure to meet the second criteria that became critical to its severe impact.

On the second layer, the weaknesses were laid on the domestic institutions. There are three major signs of this symptom. First, Greece's economic growth during the pre-crisis era was supported by high debt and government budget deficits. Greece's debt-to-GDP ratio never met the Maastricht Convergence Criteria of 60 per cent. In fact, the figure was continuously rising. Despite this condition, the government also consistently intervenes in the economy with its expansionary measures to finance its growth, including by building numerous projects for 2004 Athena Olympiads, receiving large public servants to push unemployment down, and increasing the welfare budget for pensioners.[60] These policies restrict government fiscal flexibility and put more burden on the public debt, as indicated by consistently high government debt to GDP ratio above 120 per cent in years before the crisis.

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[57] See, for example, Robert Godby and Stephanie B. Anderson, *Greek Tragedy, European Odyssey: The Politics and Economics of the Eurozone Crisis* (Berlin: Barbara Budrich Publishers, 2016); Angelos Kotios, George Pavlidis, and George Galanos, 'Greece and the Euro: The Chronicle of an Expected Collapse', *Intereconomics* 46, no. 5 (1 October 2011): 263–69, https://doi.org/10.1007/s10272-011-0390-7.
[58] Tom Gallagher, *Europe's Path to Crisis: Disintegration via Monetary Union* (Manchester: Manchester University Press, 2014).
[59] European Central Bank, 'Convergence Report, June 2022', 1 June 2022, https://www.ecb.europa.eu/pub/convergence/html/ecb.cr202206~e0fe4e1874.en.html.
[60] Petrakis, *The Greek Economy and the Crisis: Challenges and Responses*.

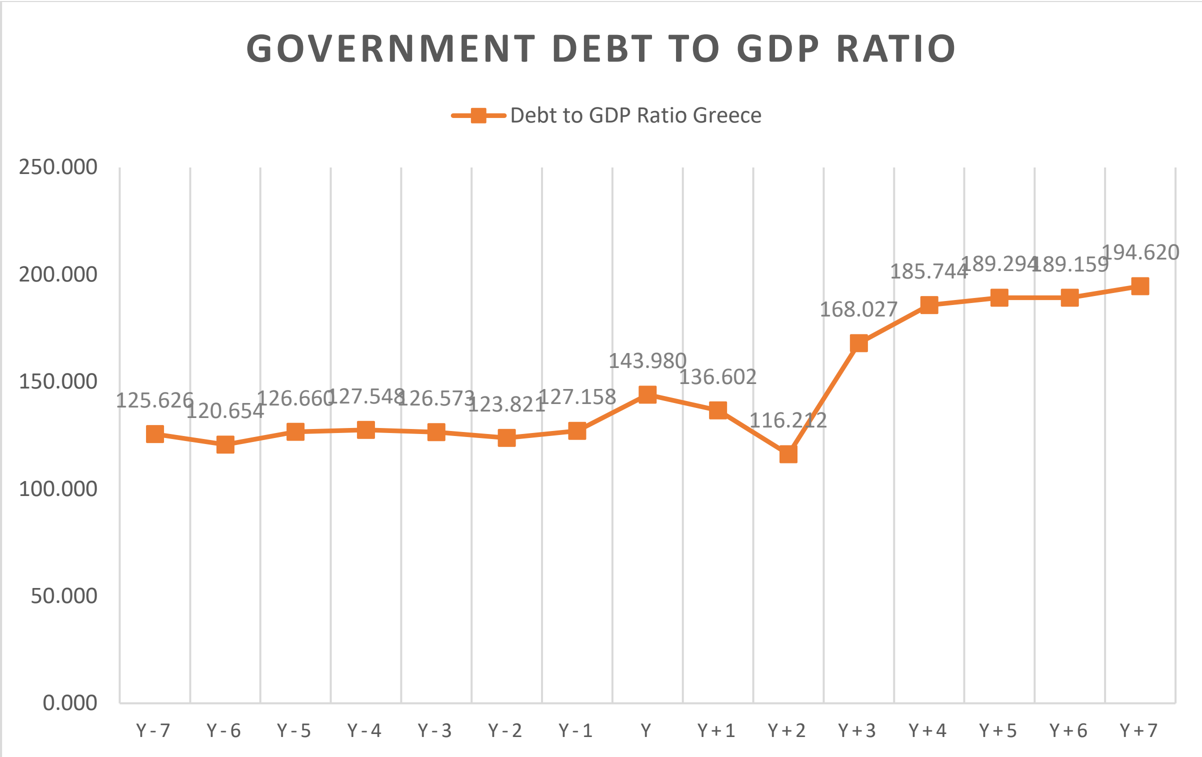

Figure 4 *Greece Government Debt to GDP Ratio, (y = 2009)*[61]

These problems are related to the second point on its institutional weakness, a large shadow economy that runs in Greece. In a pre-crisis estimation, some researchers expect that around 20-25 per cent of the Greek economy was under this shadow economy definition, the worst in Europe and other advanced economies.[62] In a shadow economy, the economic activities are not reported in government economic calculation, despite its final output being accounted for in the total national GDP. The activity might be legal, but because it is not reported to the officials, it cannot be taxed by the government.[63] Consequently, the government loss its tax potential. In an economy like Greece, where tax evasion was already high, large amounts of shadow economy only worsen the conditions.

A large amount of shadow economy indicates that corruption was widespread in the government, hindering its economic growth to its full potential. The overall cost of corruption in the last decade before the crisis hit was estimated to be 120 billion Euros, making Greece

[61] 'World Bank Open Data'.
[62] Stavros Katsios, 'The Shadow Economy and Corruption in Greece', *South-Eastern Europe Journal of Economics*, no. 1 (2006): 61–80.
[63] Friedrich Schneider and Dominik H Enste, 'Shadow Economies: Size, Causes, and Consequences', *Journal of Economic Literature* 38, no. 1 (1 March 2000): 77–114, https://doi.org/10.1257/jel.38.1.77.

the worst-ranked country within the EU regarding corruption.[64] As in any country, a corrupt government means the government's weak institutional capacity to measure its own economy. One prominent example of this lack of transparency was the government budget deficit, which was consistently recalculated during the crisis. In early 2009, the budget deficit was only 3.7 per cent, but as the condition got worse, external bodies started to reassess the condition, which was later revealed in November 2010 by the Eurostat that the budget deficit was much worse with 15.4 per cent. In its report, European Commission also highlighted the unclear responsibility of national service to provide national statistics and data to measure its own economic performance, including government balance.[65] This large jumping estimation within one year instantly tore down the government's credibility among creditors. Credit ratings such as S&P downgraded Greece's status from A- to BBB+ in 2010. With lower credibility, the loan will take a higher interest rate and prevent investors from investing in Greece. Therefore, the main problem for Greece was the moral hazard of government credibility, not of its banking industry, as many assumed.[66]

Third, Greece already had a problem with its market structure. Since joining the EU in 1981, Greece has been less competitive than other advanced European economies in terms of productivity, creating a supply problem in the economy.[67] When joining a monetary union, the expectation is that the transaction cost of trade and capital mobility will be minimal, creating a free movement of goods and services. However, when there is a development imbalance, the result will be asymmetric between the countries. Countries with more advanced economic capacity and stronger institutions, like French and Germany, will gain more leverage than others. Thus, lagging countries like Italy and Greece are behind.

Greece, among other Southern European countries, experienced rapid deindustrialisation in the 1980s and 1990s, indicated by its decreasing value added to the manufacturing industry. Some cited that the growing financialisation in the European market led to the polarisation of industrialisation, where most industries agglomerated at the countries with more advanced economic capacities and stronger institutions, like French and Germany

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[64] 'Greece: The Cost of a Bribe - Transparency International', accessed 27 April 2023, https://web.archive.org/web/20191203105310/https://www.transparency.org/news/feature/greece_the_cost_of_a_bribe.
[65] 'Report on Greek Government Deficit and Debt Statistics' (Brussels: European Commissions, January 2010).
[66] George Papaconstantinou, 'The Legacy of the Global Financial Crisis: The View from Greece', in *The Legacy of the Global Financial Crisis*, ed. Youssef Cassis and Jean-Jacques Van Helten (I. B. Tauris, 2021), 151–64.
[67] Yannis M. Ioannides and Christopher A. Pissarides, 'Is the Greek Crisis One of Supply or Demand?', *Brookings Papers on Economic Activity*, 2015, 349–83.

and lagging countries like Italy and Greece behind.[68] On top of that, the salary gap between public and private workers in Greece was among the worst in Europe, with pre-crisis figures showing that those who work as public servants receive 45 per cent higher than in private industries.[69] With a large amount of tax avoidance and high government spending on public servant salary, the pressure on the government budget become unavoidably high. It also provides less incentives for people to run real economic activities, such as manufacturing.

[68] Francesca Gambarotto, Marco Rangone, and Stefano Solari, 'Financialization and Deindustrialization in the Southern European Periphery', *Athens Journal of Mediterranean Studies* 5, no. 3 (July 2019): 151–72, https://doi.org/10.30958/ajms.5-3-2.
[69] Mitsopoulos and Pelagidis, *Understanding the Crisis in Greece: From Boom to Bust*.

VI. Comparative Analysis of Institutional Transformation

In this chapter, I advanced the following arguments to show how Indonesian and Greece institutions transformed during and after the crisis. It derived from the concept that I developed earlier in Chapter II. In principle, the institutional transformation results from the country's short-term shock and long-term institutionalisation process. Two major components contribute to the transformation process in these cases: (1) weak economic institutions, despite various attempts to reform prior to the crisis and (2) sudden economic shock that push the policymakers to change the policy directions from the previous trajectory. The pre-crisis reform was a similar path for both Indonesia and Greece. Before the crisis, Indonesia had already begun economic reform in response to decreasing oil and other natural resources-based revenue contributions. In addition, the premise of globalisation that flourished in the 1990s also attracted Indonesian authorities to adjust to open economic policy gradually. On the other hand, Greece also did a gradual reform in the 1990s, mainly due to the motivation to join the European Monetary Union.

Both the Indonesian and Greek cases show a similar trajectory of crisis and what they neglect. It started with soaring economic growth that pushed the government's confidence, while at the same time, they forgot to satisfy the fundamental aspect of sustaining the growth, a robust institution. The crisis unveiled the pre-crisis economic reform was insufficient. In response to the crisis, the government took the reform not only on its economic institution but also on its political institution. The depth of the crisis and breadth of political effects influence the transformation process and result. During the process, the government need to embed several aspects of previous risks into the post-crisis policies. The crisis also invited international actors to interfere in the transformation process, which in some places, had opposite policy preferences to the domestic actors. Here, the double movement of two diverging forces has two layers: political preference and economic policy preference.

Policy Change

The first aspect of institutional transformation is the changing policy choice from its pre-crisis pattern. The main objective of the policy change was to reduce the government budget deficit and reduce government debt. In theory, reducing the budget deficit was simple, receive more and spend less. However, the process was painful for the policymakers and the general public because they have to change in short time by external pressures without any guarantee of the result in the future. One notable approach in the fiscal policy over the crisis was on reducing the welfare budget, infamously known as the ‘austerity policy’. This policy has two sides, reducing government expenditure and increasing government revenue. Here, I am focusing on the welfare and industrial policy, which is heavily impacted by the limited government fiscal capacity and the austerity measures following the bailout from the IMF.

Prior to the crisis, the Indonesian welfare system was based on the idea of state developmentalism, where the centralised government economic policy supported state industrialisation. Thus, social support was to ensure political and economic stability.[70] It was shown in the selective social programme, with priority was given to the state civil servant who encouraged to vote for the ruling party of Golkar (*Golongan Karya,* The Party of Functional Group). Furthermore, through the state-owned corporations, the government distributed the food and energy basic supply at a pegged price, helping the market price to remain stable.

After the crisis, the fiscal capacity of the government simply could not support such programmes, leading to the reduction of social policies. In addition, the IMF bailout packages also came with austerity measures, including reduction of subsidies and support for state-owned corporations, which previously played the role of distributor and price stabilator. Indeed, the government maintained its subsidy on energy prices for years after the crisis, but it was compensated by a lower government budget in other sectors. The decentralisation of government also creates problems in the institutional layer of social protection, where for instance, the national healthcare insurance become localised and cannot be used in a different province.[71]

These policies worsen the crisis. The poverty rate jumped to 23.4 per cent in 1999. It was partially caused by the food price escalating beyond the inflation rate of 78 per cent, at 118 per cent. It shows that when the state gives up its subsidy over food and energy prices, the people simply cannot hold their consumption, resulting in the jumping amount of poverty. This policy generally remained unchanged after the recovery, contributing to the increasing inequality and slow rate of policy reductions.[72]

The government also shifted its industrial policy after the crisis. As previously mentioned, the surplus from the resource boom was allocated for industrialisation in pre-crisis

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70 Mulyadi Sumarto, ‘Welfare Regime Change in Developing Countries: Evidence from Indonesia’, *Social Policy & Administration* 51, no. 6 (2017): 940–59, https://doi.org/10.1111/spol.12340.
71 Sumarto.
72 Asep Suryahadi, Gracia Hadiwidjaja, and Sudarno Sumarto, ‘Economic Growth and Poverty Reduction in Indonesia before and after the Asian Financial Crisis’, *Bulletin of Indonesian Economic Studies* 48, no. 2 (1 August 2012): 209–27, https://doi.org/10.1080/00074918.2012.694155.

Indonesia. IMF conditionalities included the terms of giving up several strategic industries nurturing, including the aeroplane industry.[73] Other industries, such as telecommunication and energy, went through privatisation. However, the most significant impact was on the manufacturing industry. Despite the government not monopolising this sector before the crisis, the support for raw materials and machinery on top of investment allocation help the industry to grow before the crisis.[74] After the crisis, the absence of government support correlates with the decreasing number of value-added manufacturing industry shares to the GDP, as shown in the following figure.

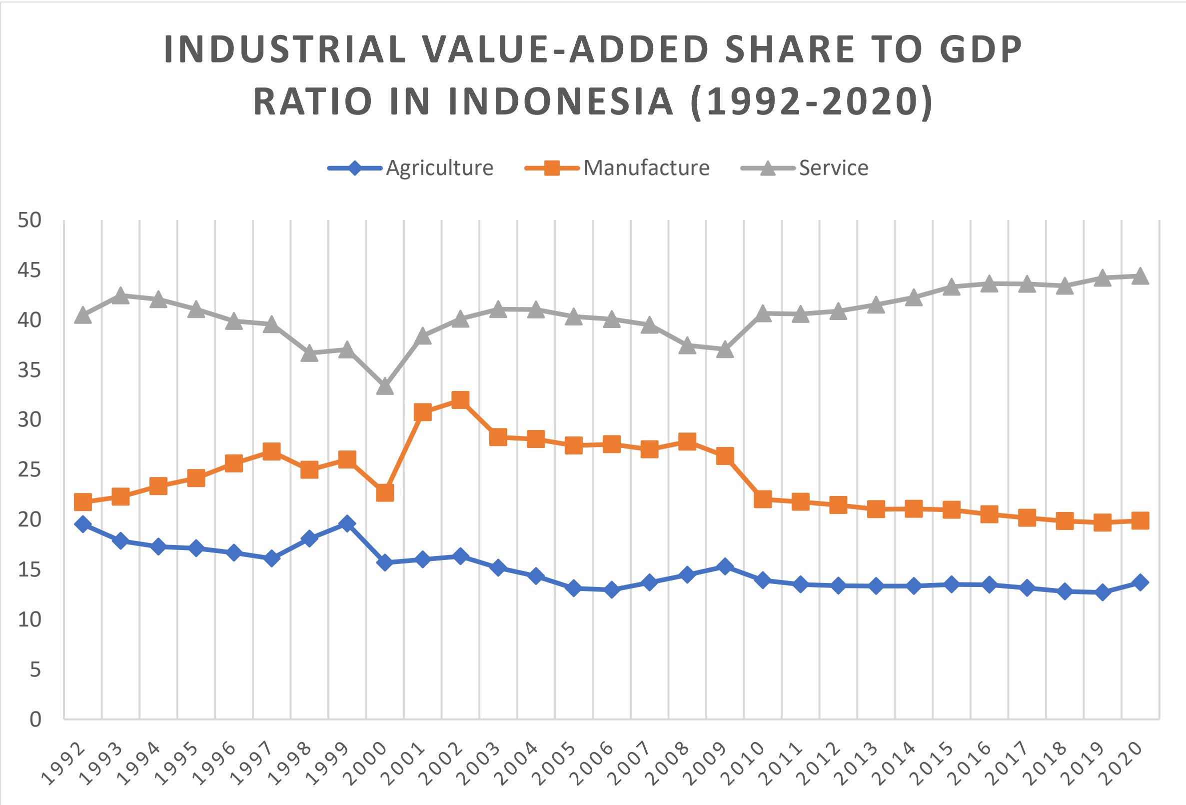

Figure 5 *Value-Added Share to GDP of Respective Industry in Indonesia (1992-2020)*[75]

In Greece, the reform also faced some problems with its welfare policies. In reducing the expenditure, the policy includes reducing public sector wages, pension benefits, unemployment benefits, and social insurance contributions. With rising government revenue, they charged more in direct and indirect value-added tax, property tax, and charge on self-

[73] Amir, *The Technological State in Indonesia: The Co-Constitution of High Technology and Authoritarian Politics*.
[74] Haryo Aswicahyono, 'How Not to Industrialise? Indonesia's Automotive Industry', *Bulletin of Indonesian Economic Studies* 36, no. 1 (April 2000): 209–41, https://doi.org/10.1080/00074910012331337843.
[75] 'World Bank Open Data'.

employed citizens.[76] The consequences of this policy were direct. The poverty and inequality rate in Greece increased. An estimation with fixed real economic indicators suggests that poverty dramatically increased from 20% in 2009 to 37% in 2012.[77] The decreasing state capacity in distributing welfare also affects structural inequality, as shown by the Theil index, estimated to be rising 18 points from 2007 to 2012 and the Gini ratio from 0.350 in 2009 to 0.368 in 2012.[78]

In addition to welfare policies, the austerity measures imposed by the Troika also forced Greece to reduce government involvement in the market. One of the major policies was the privatisation of government assets and corporations. On the one hand, privatisation provides fresh cash flow to the government budget in addition to the income from tax. However, it also had a drawback, especially when the privatised asset was considered geopolitically strategic, such as the logistic port of Piraeus. Chinese state-owned corporation signed a concession to manage the port for 35 years with an 830 million Euros deal. This raised the question of how it will impact Europe's strategic position amidst geopolitical tension between the West and China.[79] Nevertheless, the privatisation policy prevailed with the expected fresh fund of 50 billion Euros.

Embeddedness

As previous reform did not sufficiently support the economy to be resilient during the crisis, further reform was needed. However, the reform cannot only change the policy direction, but it should also embed the previous risks into the state political institution. In this part, I will show how post-crisis Indonesia and Greece tried to overcome the problems by embedding the lesson learned from the crisis into their political and economic institutions.

In Indonesia, two major changes in political institutions happened. First, the problem of power concentration was replaced by the decentralisation process of politics and economic decision-makers. Previously, power concentration has already a major problem in Indonesian politics. During the New Order era, Suharto was the main decision maker which related to the

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[76] Manos Matsaganis and Chrysa Leventi, ‘Poverty and Inequality during the Great Recession in Greece’, *Political Studies Review* 12, no. 2 (1 May 2014): 209–23, https://doi.org/10.1111/1478-9302.12050.

[77] Matsaganis and Leventi.

[78] Eirini Andriopoulou, Alexandros Karakitsios, and Panos Tsakloglou, ‘Inequality and Poverty in Greece: Changes in Times of Crisis’, in *Socioeconomic Fragmentation and Exclusion in Greece under the Crisis*, ed. Dimitris Katsikas, Dimitri A. Sotiropoulos, and Maria Zafiropoulou, New Perspectives on South-East Europe (Cham: Springer International Publishing, 2018), 23–54, https://doi.org/10.1007/978-3-319-68798-8_2.

[79] Mohid Iftikhar and Jing Vivian Zhan, ‘The Geopolitics of China’s Overseas Port Investments: A Comparative Analysis of Greece and Pakistan’, *Geopolitics* 27, no. 3 (27 May 2022): 826–51, https://doi.org/10.1080/14650045.2020.1832473.

high potential problems for the government due to strict power concentration.[80] Until early 1998, Suharto tried to halt the reform despite the first Letter of Intent with the IMF already signed.

After the fall of Suharto, one of the agendas for political reform was government decentralisation. In 1999, the parliament passed Laws 22/1999 and 25/1999, which became the foundation for decentralising political authority to the provincial, regional district (kabupaten), and municipal (kota) governments. The decision-making power is decentralised, and the government also distributes the authority for regulating the local economy. It includes the authority to give industrial, agricultural, and mining permission.

This decentralisation process has twofold effects. On the one hand, it gives the local government more authority to reach its economic potential. The resilience of the 2008 Global Financial Crisis is the best example. Despite the turmoil in the financial market, which is naturally centralised in the capital city, the Indonesian economy remains growing by 5-6 per cent. Atteridge et al.'s study show the relationship between decentralisation of political authority has a positive correlation to the proliferation of the coal industry in the coal-rich regions, which accumulated into a national export and positive economic growth.[81] On the other hand, some question the real economic effects of decentralisation. Pepinsky and Wihardja's empirical studies found no direct effect of decentralisation and economic growth, citing the lagging economic growth compared to pre-crisis years but also recognised the heterogeneity of local conditions in Indonesia.[82] On the national level, political decentralisation was followed immediately by the reconsolidation of oligarchic economic power.[83]

Second, the creation of the Corruption Eradication Commission (*Komisi Pemberantasan Korupsi, KPK)*, an independent, ad-hoc government body with full authority to punish corruption. This institution was funded in 2002 and was modelled after the successful Hong Kong Anti-Corruption Body. The creation of this commission was praised by many and contributed to the improvement of the Indonesian corruption perception index from 20 points

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[80] Andrew MacIntyre, *The Power of Institutions: Political Architecture and Governance* (Ithaca, New York: Cornell University Press, 2003).
[81] Aaron Atteridge, May Thazin Aung, and Agus Nugroho, 'Contemporary Coal Dynamics in Indonesia', SEI Working Paper (Stockholm Environment Institute, 1 April 2018), https://doi.org/10.13140/RG.2.2.27690.29128.
[82] Thomas B. Pepinsky and Maria M. Wihardja, 'Decentralization and Economic Performance in Indonesia', *Journal of East Asian Studies* 11, no. 3 (December 2011): 337–71, https://doi.org/10.1017/S1598240800007372.
[83] Vedi R Hadiz and Richard Robison, *Reorganising Power in Indonesia: The Politics of Oligarchy in an Age of Markets* (London: Routledge, 2004).

in 1998 to its peak of 40 points in 2019.[84] However, despite all the praises, critics mentioned that the prosecution was segmented, scattered, had limited impact, and was highly politicised.[85]

On the economic institutions, the 1998 crisis also shows the danger of incorporation of monetary authority under the executive branch of government. There was also a coordination conflict between the Ministry of Finance and the Central Bank, with concern over their overlapping authority in monetary policy.[86] Without its independence, the government could intervene in the monetary policy and manipulate the statistics over money circulation, which led to a deficit in trust in the market. Therefore, as part of the reform, the government gave up its monetary authority by separating the Central Bank from the executive government, resulting in an independent Bank of Indonesia. A recent study shows the effectivity of this policy, which positively correlates with the low and stable inflation in post-crisis Indonesia.[87] These combinations, decentralised fiscal authorities, anti-corruptions, and independent central banks were arguably why Indonesia was relatively immune from the 2008 Global Financial Crisis.

Two major changes in political institutions also happened in post-crisis Greece. First, Greece also had to deal with its corruption and clientelism problems. In doing so, the government tried to institutionalise the anti-corruption effort. From 2010-2015, 15 new laws related to anti-corruption were introduced. This includes a new governmental post of Deputy Minister for Anti-Corruption in the central government.[88] This institutionalisation effort of anti-corruption was supported by the EU institutions as they provide assistantships and provisions to develop the institution.

The result of this anti-corruption effort was mixed. Indeed, Greece's Corruption Perception Index shows a gradual improvement, peaking at 52 points in 2022.[89] However, it cannot be denied the fact that among European and other advanced economies, Greece remained among the worst. Furthermore, the expected outcome of such an institution, impartially prosecuting corruption cases, remained under question. Critics noticed that the

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[84] 'Indonesia', Transparency.org, 31 January 2023, https://www.transparency.org/en/countries/indonesia.
[85] Vishnu Juwono, 'Berantas Korupsi: A Political History of Governance Reform and Anti-Corruption Initiatives in Indonesia' (London, London School of Economics and Political Sciences, 2016), http://etheses.lse.ac.uk/view/creators/Juwono=3AVishnu=3A=3A.html.
[86] Lloyd R. Kenward, 'What Has Been Happening at Bank Indonesia?', *Bulletin of Indonesian Economic Studies* 35, no. 1 (April 1999): 121–27, https://doi.org/10.1080/00074919912331337517.
[87] Yessy Andriani and Prasanna Gai, 'The Effect of Central Bank Independence on Price Stability: The Case of Indonesia', *Bulletin of Monetary, Economics, and Banking*, April 2013, 353–75.
[88] Dimitri A Sotiropoulos, 'Corruption and Anti-Corruption in Today's Greece' (Athens: Hellenic Foundation for European & Foreign Policy, 2020).
[89] 'Corruption Perception Index Greece 2022', Statista, accessed 15 May 2023, https://www.statista.com/statistics/871585/corruption-perception-index-greece/.

political polarisation and the rise of populism in Greece affect the impartiality of the implementation of anti-corruption laws.[90]

Then, a second part of the embeddedness was at the transnational level of crisis governance. To add another layer of complexity, Greece should coordinate its policy with other EU countries, especially within the Eurozone. As mandated by the Lisbon Treaty, where 'the ministers of the member states whose currency is the Euro shall meet informally', Eurogroup was an informal institution for Finance Ministers to meet that already existed before the crisis. However, the crisis wight more importance for the Eurogroup to another level, in spite of its informality as an institution and non-adherence to the EU institutions. Therefore, unlike other EU institutions, Eurogroup was not subjected to EU Transparency rules.[91]

The consequence was twofold. In principle, ministers can talk more open about confidential matters in managing the crisis. As the group was made of high-level decision makers and in a time of crisis where a coordination game will be critical, it provides a platform for them to reduce the potency of asymmetrical information bias. However, it also makes the contestation over interest and policy preference high and uncontrolled by other elected officials, especially the national parliament.[92] This raised concern about how the democratic principle of accountability and transparency should be insisted on even during the crisis.

The coordination not only happened in the fiscal authority of government but also in the monetary one. In managing monetary policy, Greece cannot stand on its own position. As part of the Eurozone and European Monetary Union, the European Central Bank has the authority to manage the monetary policy of the Euro. As part of the EU institutions, ECB also adopt the unanimous decision-making approach, which means all other member states should agree with any policy being proposed. The 'no-bailout' rule of the ECB also adds another layer of complexity to the strategy in controlling money circulation, where in Indonesia's case, was under remained under one sovereign.

Therefore, Greece should negotiate with other Eurozone countries during the crisis, which contributed to the delayed reaction to the crisis. As part of the Eurozone, Greece's national government cannot buy their own bonds, as other countries central banks will do at

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90 Sotiropoulos, 'Corruption and Anti-Corruption in Today's Greece'.
91 Joscha Abels, 'Power behind the Curtain: The Eurogroup's Role in the Crisis and the Value of Informality in Economic Governance', *European Politics and Society* 20, no. 5 (20 October 2019): 519–34, https://doi.org/10.1080/23745118.2018.1542774.
92 Abels.

times of immediate macroeconomic shock. The ECB, on the other hand, cannot buy its member states' government bonds directly. Thus, after a series of negotiations, they bought the bond in the secondary market.

Double Movement

The double movement has two layers of policy conflicts, and it involves actors. On the first layer, it is on the economic policy, where the contention was between neoliberal reform pushed by the IMF and the prior policy choices of the state. The debate among policymakers will reflect this tension. On the second layer, it is on political preference, where the pro-reform political group conflicted with the sceptical group in the country. It is reflected in the election results during and after the crisis. While the pattern in Indonesia and Greece was similar in the former, in the latter, they were different.

From the Indonesian side, the criticism over the IMF loan programme was also heavily criticised. Soedradjad Djiwandono, the governor of Bank Indonesia (central bank of Indonesia) at the early time of the crisis, noted that the IMF conditionalities were counterproductive in stabilising the Rupiah. On the one hand, IMF pushed Bank Indonesia to retreat from intervening Rupiah and let them float. While pushing this condition, a group of US lobbyists led by an economic professor persuaded the government to peg Rupiah into US Dollars. The IMF also did not make serious efforts to convince the creditors with their bailout proposal, which further led to more demand on foreign currency that dropped the Rupiah value.[93] He also mentioned that the IMF did not provide a fair loan, compared with other Asian countries that receive IMF loans, while remaining too rigid for the policy implementation despite differences in economic conditions. This included the forced closure of 16 banks which triggered more panic in the market.[94] His deputy governor, Miranda Goeltom, also mentioned the IMF's misjudgement of the Indonesian macroeconomic condition as the reason their bailout did not restore foreign creditors, leading to a deeper currency loss in its value.[95]

IMF austerity did not stop with a tight monetary policy. The IMF conditionalities also push the Indonesian government to tighten its fiscal policy. During the Suharto era, the government managed the market price of food, energy, and other basic needs as the distribution

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[93] J. Soedradjad Djiwandono, 'Bank Indonesia and The Recent Crisis', *Bulletin of Indonesian Economic Studies* 36, no. 1 (April 2000): 47–72, https://doi.org/10.1080/00074910012331337783.
[94] J. Soedradjad Djiwandono, *Bank Indonesia and the Crisis: An Insider's View*, Local History and Memoirs (Singapore: ISEAS–Yusof Ishak Institute, 2005), https://www.cambridge.org/core/books/bank-indonesia-and-the-crisis/651411B9EC74B388C92437B097D2BE57.
[95] Goeltom, *Essays in Macroeconomic Policy*.

was controlled under the state-owned enterprises. However, the government lost its fiscal capacity due to the crisis in which the IMF restricted their loan allocation. Later, the Indonesian government compromised by loosening the fiscal policy while maintaining tight fiscal policy. Indonesian post-crisis Finance Minister Boediono (2001-2004) stated that this action was taken considering the widening of the crisis from economic into social and political instabilities, including extreme drought caused by El Nino that led to food scarcity, allowed the Indonesian government to allocate national budget on social security.[96]

The Greece case also shows the tension between the national authorities and policy imposed by the IMF and EU institutions, infamously known as the Troika (IMF, ECB, and EC). The first objection was raised when Greece resisted the proposal to call for IMF assistance.[97] This resistance was based on previous IMF experience that went far to intervene in the domestic economic policy, and they worried the IMF would make a similar move in Greece. EU institutions also initially resisted the involvement of the IMF, citing that it will degrade EU credibility in managing their problems.[98] Nevertheless, the IMF's expertise and experience in assisting crisis recovery for dozens of countries was the fact that they were hard to deny.

At first, the Greece government tried to avoid the blame game solely on their domestic institution. In his reflection, Greece's PM George Papandreou tried to recapture the crisis as a European problem as he negotiated with other European leaders, despite facing rejections from more powerful leaders, including French and German, who worried that it would infect their countries.[99] Albeit these efforts, when the 130 Billion Euro bailout package was agreed upon in 2011 with its following austerity measures, Papandreou called for a referendum to decide whether the domestic public would accept it. However, his attempt faced criticism from other European leaders, including Sarkozy of France, and the parliament's call for a confident vote.[100]

The implementation of austerity since the bailout built up resistance towards them. This resistance culminated in 2015 when the referendum and election results sent a clearer message

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[96] Boediono, *Ekonomi Indonesia dalam Lintasan Sejarah (Indonesian Economy across History)* (Bandung: Penerbit Mizan, 2016).
[97] Jean Pisani-Ferry, André Sapir, and Guntram Wolff, 'EU-IMF Assistance to Euro-Area Countries: An Early Assessment', *Bruegel*, n.d.
[98] Adam Cohen, 'EU Debates IMF Role for Greece', *Wall Street Journal*, 10 February 2010, https://www.wsj.com/articles/SB10001424052748704140104575057012176061570.
[99] George Papandreou, 'Reflections on the Greek and Eurozone Crises: A View from the Inside', in *The Politics of Extreme Austerity: Greece in the Eurozone Crisis*, ed. Georgios Karyotis and Roman Gerodimos (London: Palgrave Macmillan, 2015).
[100] 'Papandreou Calls off Referendum', *POLITICO* (blog), 3 November 2011, https://www.politico.eu/article/papandreou-calls-off-referendum/.

for people's rejection. In the referendum, more than 60% of people rejected the proposal from the Eurogroup and Troika on Greece's debts, despite some criticism of how the unclear construction of the questions. However, this result was further confirmed by the election months later. It broke the two-party domination between New Democratic and PASOK. In the election, Greece swung towards the radical-left Eurosceptic party, SYRIZA. It promised to renegotiate the debt with the Troika, threatened to leave the Euro, and launched anti-austerity policies.[101]

However, we cannot find an equal move in political preference in Indonesia. The post-crisis election result did not show a similar political swing. As the economic crisis continued, the political crisis and the fall of the Suharto regime, Indonesia held its first free parliament election in 1999. PDIP, which was the main opposition from the Indonesian left, won the race but failed to gain support for its leader, Megawati Sukarnoputri, to become the president. Megawati ended up as the vice president for Abdurrahman Wahid, which came from the traditionalist-Islam group. However, the parliament later voted for non-confidence over Wahid in 2001, and Megawati became president. In 2004, as the economic conditions improved, Megawati failed to win the first direct presidential election. Yudhoyono, a military general from a centrist and relatively small Democratic party, won instead. This political phenomenon shows that the political landscape remains unchanged despite the crisis destroying the Indonesian economy. The political debate was not in line with economic policy tension between pro-neoliberal reform of IMF or nationalist economic policies. The political tension was still inheriting the debate of early independence between the left (more socialist tendency), right (Islamist), and centrist (nationalist-religious group).[102]

[101] Emmanouil Tsatsanis and Eftichia Teperoglou, 'Realignment under Stress: The July 2015 Referendum and the September Parliamentary Election in Greece', *South European Society and Politics* 21, no. 4 (October 2016): 427–50, https://doi.org/10.1080/13608746.2016.1208906.
[102] Anies Rasyid Baswedan, 'Political Islam in Indonesia: Present and Future Trajectory', *Asian Survey* 44, no. 5 (2004): 669–90.

VII.Conclusion

This thesis began with the introduction of 'Institutional Transformation', a concept that synthesises the Historical Institutionalism tradition of Political Science and Karl Polanyi's *The Great Transformations.* To explain this concept, this thesis examines a comparative study between the two most extreme cases of economic crisis, Indonesia during the 1997-1998 Asian Financial Crisis and Greece during the 2009-2010 Global and Eurozone Financial Crisis. In understanding the institutional transformation, I use three main indicators: (1) policy change, which traces the effect of the crisis on each country's shifting macroeconomic policy, (2) embeddedness, which observes the embedding of the cause of crisis into post-crisis government institution, and (3) double movement, which extract the public discourse in economic policy and political preference that surround the crisis.

As this thesis argued, the institution transforms not because of the crisis per se but, more substantially, due to insufficient reform prior to the crisis. It holds the claim of Historical Institutionalists that institutions change over time, but a critical conjuncture might accelerate the change. However, the case study also shows that the transformation might differ from one country to another despite having the worst condition in each crisis episode. The transformation in Indonesia was relatively more substantial than in Greece due to two main factors. First, the starting point of Indonesian institutions was behind Greece's, partly because of the different industrialisation progress they achieved at the time of crisis. Second, in Greece's case, they did not deal with only one international institution that forced the transformation, but also the supranational body of European institutions that hold the authority for monetary policy and regulating the debt.

The involvement of external actors that enforce harsh austerity measures in the name of substantial reform faced opposition from domestic policymakers and the general public. They want to move in a different direction, especially where it degrades national sovereignty and public benefit. However, it does not mean that the policy debate translated well into political preference, wherein the Indonesian case does not correlate with democratic contestation after the crisis.

In the end, this thesis might provide some insights to the policymakers and the general public. For policymakers, it is important not to be overconfident with the reform they have undertaken for years. The menace of crisis might be hanging over the sky that could fall at any time. Rising geopolitical tension between great powers in Ukraine and Taiwan Street might increase the threat to the global economy. Thus, it is important to worry about external conditions. For the public, it is important to maintain their criticism of the government's economic and political institutions. The government should hold itself accountable and combat corruption to reduce the risk of institutional weakness. Otherwise, the institution will gradually crumble down and become more vulnerable to external shock.

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