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# HISTORY OF POLITICAL DECISION MAKING IN INDONESIAN FINANCIAL REFORMS: FROM THE REFORMATION OF BANKING SYSTEM TO THE ESTABLISHMENT OF OTORITAS JASA KEUANGAN

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## Abstract

Indonesian government and public believe that strong, rational, and independent financial institution would bring economic welfare and reducing the damage of horrifying global economic-financial crisis that had happened, they believe that this institutional configuration is analogous to the effort in eradicating corruption. However, financial reforms in Indonesia do not solely formulated base on economical perspective but the political decisions were/are taking a large part in formulating such reforms. Unfortunately, there is no specific definition or method to delineate the difference between economic and political decisions. This paper took the challenge to explain and distinguish the economic and political decision in the context of financial reforms in Indonesia. This paper will also contrast the types of political decisions, for instances political decisions between state actors, political actors, and institutions. The research is conducted qualitatively, engaging a wide range of sources from historical and political analyses, international covenants and agreements as well as national legislations. As the title denotes, the paper will historically scrutinize the political motif behind the decision-making procedure in Indonesian financial reform, through discovery and investigation of historical facts, also tailoring interpretations to produce explanatory narrative. This paper argues that Indonesian financial reforms does not solely rely to rational, rigid and deductive economic analyses, in contrast the decisions often based on political negotiations and deals. Therefore, challenge the legitimacy of the decisions whether it is benefiting the people.

**Keywords:** Political Decision, Rational Decision, Financial Reforms, Otoritas Jasa Keuangan

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## Introduction

The memorable photograph of Michael Camdessus the Former Director of IMF looking at Soeharto patronizingly while he signed the IMF's agreement to resuscitate Indonesian economy from Asian Financial Crisis (AFC) that began in 1997 were taken as negative depiction where republic's interest being dictated by foreign power, symbolizing master-servant relation and colonial attitude (Chomsky, 1998). Since that, somehow, Indonesian people starting to aware of the implication of international politics in the formulation of national policy. This awareness grew into suspicion when one tries to connect the course of important events that largely change the socio-political milieu of Indonesia, especially one that involve foreign intervention. Events like 1965 massacre join aggression of Australian and Indonesian Army in East Timor for the purpose of oil reserve, and the issue of letting national resources being exploited by United States offshore company, Freeport (Chomsky, 1998). Those actual involvements of foreign interest make Indonesian public questioning about the possibility of having decision that is not politically loaded, at least in geopolitical context (Dick & Mulholland, 2016).

However, the suspicion regarding politically loaded decision in public policy formation that ignoring the welfare of the totality of the population continues, even increasing at some point (Dick & Mulholland, 2016). Domestically, political decisions that serve the interest of political actors or groups of political actors are harming the effectiveness and accuracy of having a public policy that rationally constructed and scientifically tested, whether in economics, finance, and so on (Winters, 2013). Political interests have gone as far as breaking the law, which is taking form in corruption, embezzlement, fraud, and so on (Winters, 2013). The misuse of central bank lending in Bank of Century, the fraudulent activities in investing public's fund in Jiwasraya's case, the case of Asabri in managing penny stocks, and so on, to name a few cases that were 'political' in nature (Gumelar, 2020). Thus, the categorical understanding of Indonesian public regarding the dichotomy of economical decision and political decision is as follows: economic decision is understood as a decision that weighing economical possibilities and opportunities for the purpose of national interest and public good, in accordance with the principles enshrined in constitution and other statutes. While political decision is recognized as an excess of idiosyncratic interest of individual or group that overflows to the public decision-making process which ought to be impartial in nature.

In a lecture at the Institution for World Capitalism, Thomas Sowell talks clearly about the difference between economic and political decision-making. Sowell argues that the first lesson of economics is scarcity. This implies competition is inherent in the circumstances. In effect, economical decision making is based on trade-offs which means a balance achieved between two desirable but incompatible features (Sowell, 2004). Thus, economical decision in this paper context would be the decision of Indonesian government to ensure financial reforms to be constructed to maximize the economical possibilities in given situation while ensuring the fairness of all layers of society (Sowell, 2004). To put it simply, economical decision in financial reforms has to benefit all of the people in accordance with economical resource available.

On the other hand, Sowell's view regarding politics in general is the art of the possible, which ignores the first lesson of scarcity in economics. Because what you are advocating does not have to be possible (Sowell, 2004). Thus, economic decision involves trade-offs while political decision involves solution whether it is real or imaginary. The problem with political decision, especially in state or government perspective is that the state is compelled to issue a solution that makes everyone happy or at least looks fair and just at the outset, which is economically insurmountable if we endorse the premise that competition is inherent. For instance, OJK was created for the purpose of implementing a just and inclusive financial system for both company and consumer, which is a politically constructed ideal (Hamilton-Hart, 2018). In fact, the

failure in maintaining both interests exist, consumers in financial industry still lacks protection and education which has represented by numerous cases. On the contrary, the thought of making pure economical decisions is also impossible. It is because the moral constraint that contains in Indonesian political principle of social justice and fairness.

The problem does not stop there, epistemologically, in economics there is also a division of perspective or thought that determined one predisposition towards certain topics. For instance, a Marxist will reject the notion of classical economics that regulated by only market system with little or no government control (Jossa, 2005). On the contrary, the capitalist desires less government intervention to the market and unmediated competitive market economy (Boskin, 1999). The more concrete example in regard with Indonesian financial reforms, Indonesia follows configuration regarding two functions of central bank as monetary and financial authority, namely macro-prudential that is a series of monetary policy and micro-prudential which views risk as an absolute, mitigating risk through regulation and supervision to have control over the system (Persaud, 2009). There are two traditions regarding that topic. The UK financial system is merging the two functions into one institution namely central bank whilst Germany financial system delegates the two functions into two distinct institutions, central bank authorizes the macro-prudential function such as setting interest rate and become the lender of last resort. On the other hand, there is an independent financial service authority (FSA) that manages the micro-prudential function of regulating the risk of individual firms and ensuring its balance sheets to be robust to shocks.

Historically, Indonesia's epistemological orientation towards the monetary and supervision function is following the Germany tradition. Helmut Schlesinger Former Governor of Bundesbank (Germany central bank) was the consultant of the creation of Law Number 23 Year 1999 regarding Bank of Indonesia (Sari, 2019). He consults the Indonesian government at that time to separate the macro-prudential and micro-prudential functions of financial industry in banking system. However, Schlesinger's idea to separate those functions did not get all the support from all the layers of Indonesian government. Habibie shares the same view with Schlesinger to separate the functions, but the house of representative (Dewan Perwakilan Rakyat, DPR) and the elites of Bank of Indonesia reject the idea (Sari, 2019).

Ultimately, the topic of the dichotomy of political and rational decision making of financial reformation in Indonesia, especially the one that relates to the separation of monetary and supervision function of central bank to independent regulator suchlike OJK was not researched often, in fact the specific topic this paper discussed is still relatively sterile. The main problem of this paper is the deliberate framing of political decisions disguised as rational decisions. For instance, the government misleading publicity that the establishment of OJK was purely constituted by rational-economic calculation. The government believed that they were implementing what they believed the proper adoption of economic theories and configurations suchlike New Institutional Economics (NIE) and single financial regulator model which had been adopted in UK since 1996 until early 2000's. In contrast, major financial reforms not limited to the establishment of OJK have been laden with political interest thus undermining the government narrative of rational decision. The most relevant work related to this paper topic is the work of Sawa Omori titled *The Politics of Financial Reform in Indonesia: The Asian Financial Crisis and Its Aftermath*. Omori explains the politics of financial reforms in Indonesia by applying the theory of veto players. By comparing the periods during and after the International Monetary Fund (IMF) programs, she analyzes temporal variations in the effects of the IMF and the number of veto players on financial reforms in Indonesia (Omori, 2014). In contrast, this paper explains decisions on financial reform were politically inherent. Furthermore, very few Indonesian authors talked about this topic and the works are rather too elementary and undescriptive (Loilewen & Titawati, 2020).

## **Research Methodology**

This research paper relies mostly on secondary data for analysis. It is mainly literature-based research. Interpreting literature and political comment that acquired from news media. Fundamentally, this paper conducted in qualitative manner that draws the historical authenticity of how the reformation of banking system and creation of OJK being carried out. Also, the author privilege to access practical information from financial industry such as PT. Jasa Raharja where the author work as Director of Institutional Relationship (Direktur Hubungan Kelembagaan) supplemented this paper with internal perspective. In addition, the author's acquaintances and collages enriched this paper's analysis. Experts on the subject like Harry Azhar Azis, former head of Indonesian Audit Board. The analysis is conducted in a dialogic manner that moves interchangeably between reviewing scholarly and other literature, and historical records. The main sources of this article would be documents and political discourses that have historical significance to the history of financial decisions in Indonesia, especially events that occurred in Asian crisis started in 1996 and Indonesian monetary crisis caused by the former in 1998 until the establishment of OJK which major financial reform that separating monetary and supervisory function of central bank. This paper arranges the events or dates in the order of their occurrence to find facts and trends to political motif in decisions on major financial reforms.

## **Research Results**

### **Further Investigation of the Nature of Political Decision**

The definition and explanation of what is political decision laid out in previous section might be not quite satisfactory to the complexity of political decision in theory as well as the nuances of labeling political decision in real politics. Regarding it, I will try to explain the strain of thought that well explained the issue.

In political science, especially in the studies of international relations, the explanation about what it means to be rational or what rationality is derived from the field of economics. The concept of rational expectation or model-consistent expectations lends us the critical perspective to answer such question. In rational expectation is an economic theory that states when making decisions, individual agents will base their decisions on the best information available and learn from the past trends. Thus, when a government want to create policies that reform the country's financial system, the people will seek rational expectation based on currently available information, namely: what government says they will do and the critics of what the government say (such as opposition parties and analysis of economist) (Muth, 1961). In that sense, the rational decision or economic decision of the state takes on a certain justified model i.e., the principles and laws of the state that gives expectation to whether the decision is carried out rationally. The reformation of Indonesian financial system like the liberalization of Bank of Indonesia through the Law Number 23 Year 1999 was justified, and classified as rational decision because a crisis is the assumed rational expectations of reforming pivotal and central policy or initiating a major social change, although crisis did not guarantee a constructive reform (Gylfason, 2012). However, the 'rationality' of commencing profound changes due to crisis is not self-evidently rational. Because crisis is a situation where survival is at stake, which automatically demand immediate change to survive. Thus, economically, crisis is a failure to manage, foresee, and settle the potential predicaments. For instance, it was rational for Indonesian government to lend IMF's fund to inject cash to major banks because of deep economic recessions: devaluation of Rupiah, increase of imported goods price, high inflation rates, and so on (Gylfason, 2012). Nevertheless, that rationality is only bound to the context of 1998 financial crisis in Indonesia. Logically, different rationality ought to be applied in a time without such crisis. Rationality bases on rational expectation and economical decision that in such way preserve country's high economic performance, which was the case in

Indonesia since the beginning of New Order until 1998 (Sharma, 2002: 384). In such a situation, biased policy choices that adulterated by political interest are irrational, even worse criminal offences like the practice of corruption, collusion, and nepotism is utterly irrational. Regarding the difficulty of finding a proper typological method in classifying decision, I come up with Graham T. Allison's concept of essence of decision. Allison drew the characteristics of decision from his observation of Cuban Missile Crisis, which happened in 1962, and came up with distinct three models that serve as a schema or tool to analyze the nature of decision (Allison & Zelikow, 1999).

The first model that he proposed is the rational actor model. This model assumes that governments are unitary actors pursuing specific goals, defined as national interest. In the case of Indonesian financial reform, the specific goals are the goals that enshrined in the constitution, such as sustainable economic development, equal distribution of economic resource and access to robust financial system that serve all layers of people (Allison & Zelikow, 1999). This model engages in rational, cost-benefit analysis to select the best alternative to achieve those goals. Thus, this rational model is the quintessential of a decision based on economic analysis.

The second model he proposed is the Organizational Process Model. This model juxtaposes the function of standard operational procedure in general institutional process. In this process of decision-making, decisions are often not the result of specific cost-benefit analysis of various option in pursuit of predetermined goal, but instead the result of standard operating procedures and institutional inertia (Allison & Zelikow, 1999). This decision-making model is the result of cognitive limitation of an individual in complex institutional situations. When faced with the crisis, decision makers often break down a bigger question into specific pieces based on already established organizational lines. To put it simply, decision makers tend to break down the problem and assign it to existing bureaucracy.

The last model he proposed is the Bureaucratic Politics Model, which is sometimes called Palace Politics Model. From the perspective of this model, policy decisions even during crisis are best understood as the result of politicking negotiation and compromise between decision makers. For instance, in the case of the creation of OJK, while high-level decision makers may share a goal in finding a way to establish a more robust national-financial system, they may still differ in their opinions on how best to achieve that goal. Such differences may be the result of personal interests, background, experiences, or other individual factors (Allison & Zelikow, 1999). However, they may also be the result of positions within the bureaucracy and the effect that such positions might have in framing individual understandings of the crisis or issue. This characteristic accurately reflects why the elites and employees of BI rejected the creation of OJK. Moreover, officials within policy circles may have different levels of input or power over financial decisions. Although, the President as executive authority often viewed as having ultimate authority, even the President often depends on gaining consensus among key advisors, whose ability to influence the President depends on the variety of factors including individual charisma, personality, persuasive skills, personal ties to the President and other decision makers, and potentially a host of other factors.

Those models are useful for analyzing and identifying the decisions concerning the liberalization of financial system and creation of separate financial supervisory authority such as OJK. In addition, the latter model, which is the Bureaucratic Politics Model can be integrated and complemented with a concept of analysis namely theory of veto players. The theory serves as necessary modalities to represent the difference of policy direction (Tsebelis, 1999). The theory of veto players can be useful as a tool to foresee the likeliness or unlikeliness of policy changes to happen. The increase of partisan veto players means that policy changes are less likely to occur (Omori, 2014). The theory of veto players strengthened the argument that financial reforms in Indonesia is politically loaded. Whether there is a change in the system or

not, such a decision will certainly foster the political interest of some individuals or groups, even though 'formal' processes of rationalization such as debates or talks. The more veto players, involve in the political decision-making process, the more likely the process to experience deadlock (Young & Dugan, 2011). Thus, we can also analyze the rise and fall of the number of veto players in central policy changes, for instance in the implementation of IMF's Conditionality agreement and creation of OJK.

### **The Political Discourse of Indonesian Financial Reforms**

The course of financial reforms in Indonesia had gone through a rough patch. Soeharto's authoritarian government has had little or no commitment to such reforms. Financial reforms allude to policy changes in such areas as the privatization of banks, augmentation of banking supervision, and capital account liberalization (Omori, 2014). These values of financial reforms are indeed from the perspective of neoliberal economy, which does not entertain such nationalistic oriented economy that was the zeitgeist of Soeharto's political regime (Schwarz, 1997). Soeharto's reluctance on asking the help of IMF showed when his government tried to deal the issue prior the IMF arrival. On 3 September 1997, the government decided to help banks that still have the chance to operate and revoke bank permits that have been predicted to be insolvent or bankrupt (Istikomah & Suhendra, 2017). Furthermore, Soeharto also issued package of economic policy, among others: the savings of foreign exchange, widening the intervention range to decreasing US Dollar purchase, postponement of huge national projects that used US Dollar, and increasing interest rate to stimulate the public to use US Dollar and purchase bank securities (Surat Berharga, SBI).

However, at that point, state banks dominated the financial system that serves as prerequisite to neo-liberal oriented financial reforms, which was the desire of Clinton's international political agenda, particularly liberal internationalism and enlargement of free market democracy which makes Indonesia as an apt 'recipient' of such agenda. The table has turned when The Asian Financial Crisis (AFC) that spreads from Thailand finally hits Indonesia. Indonesia suffered from banking crisis and a currency crisis. Indonesian government had no other option than asking to IMF for a rescue package, which is basically a loan (Omori, 2014). This rescue package intended to stabilize Indonesia's currency and restore confidence in its financial markets. However, the IMF rescue package comes with a conditionality, which is the government must agree to adjust its economic and financial policies to settle the issues that led it to seek financial aid. This conditionality is the condition for taking IMF rescue package. On the other hand, it serves to ensure that the country/creditor to be able to repay IMF (Franklin, 1997).

Indonesian government took the first agreement with IMF on October 31, 1997. The agreement described in a letter of intent (LOI), which often has a memorandum of economic and financial policies attached. Responding to the uncontrollable systemic banking crisis that is caused by unacceptable level of interconnected lending behavior. The agreement was a three-year standby agreement (SBA) which means the lending instrument would be given for that duration. The amount of loan received by Indonesia was worth 43 billion US Dollar. Financial reforms measures were taken following performance criteria, which are the closure of banks that did not submit rehabilitation plans by the end of December or whose plans were disapproved by the BI, the central bank, and a quantitative target for state banks on the agreement between the Ministry of Finance, BI, and state banks by the end of December (Omori, 2014).

The conditionality programs began to enforce when 16 insolvent banks were closed. However, because of the lack of public pronouncement regarding the notions and contents of the LOI and unsettled standard for such closure, a bank run, which is a situation when many clients withdraw their money from bank, had occurred by the end of November 1997 (Omori, 2014). The bank run was caused by several self-fulfilling factors that fundamentally depend on both customers and the bank itself (Peck & Shell, 2003). In this case, the bank run triggered by the

asymmetric information that has circulated among customers and causing imitative behavior that leads to massive panic withdrawal of money (Peck & Shell, 2003). Even a little noisy asymmetrical information would lead to self-fulfilling reaction because they believe that other customers will do the same. The closing of 16 banks was considered a tactical error. Because it confirmed to the public that the national banking system was not in good shape.

Apart from the failure of its implementation and technicalities, the political pressure from both US government and IMF became evident. On 24 July 2018, US Security Archive (NSA) issued the declassified document containing call transcript/record between Clinton and Soeharto. In that phone call, Clinton urges Soeharto to 'work closely together' with IMF upon the arrival of Camdessus to Indonesia. Suzie Sudarman, Director of American Study Center in University of Indonesia argues that Clinton's statement which urging Soeharto to work closely with IMF was a form of command. She also argues that political domination through economic approach has been the characteristic of President that came from US Democratic Party. The term 'urge' in the conversation between Clinton and Soeharto must be considered as urging the weaker counterpart to serve the needs of the stronger party. It should not be understood as a language to address an equal counterpart or friends of equal stature, she added (BBC News Indonesia, 2018).

On the other hand, from an economic perspective, Iman Sugema, Senior Researcher from Development of Economics and Finance (INDEF) argues that IMF's Letter of Intent was rather too descriptive and contains many details that deemed impractical. He makes an analogy that IMF gave Indonesia too many prescriptions that not apt for the prevailing illness (BBC News Indonesia, 2018). To put simply, IMF gave Indonesia a drug overdose. The reform has gone too far at some point that the sectors which were not an object of crisis are still subjected to reform, thus making it excessive. Prior to the second Letter of Intent, IMF overestimated Soeharto's commitment to the conditionality program. The first assessment and evaluation that took place in December 1997 proved there were no performance criteria that were fully implemented. During the announcement of the second Letter of Intent, the bank runs continued, because of the loss of market confidence following the proposed government's fiscal budget. Even though the second Letter of Intent did not include financial reforms, IMF still required the government to continue their plan to stabilize the banking sector. That leads to the establishment of the Indonesian Banking Restructuring Agency (IBRA) (Omori, 2014). IBRA intended to rescue the banking sector from its monumental debt. Also, it functioned to recover bad loans of banks by selling corporate assets as collateral for emergency bank liquidity.

IMF suggested that IBRA should be independent body. However, the government had different opinion regarding the position of IBRA within the institutional structure. Indonesian government decided to place IBRA under the authority of Ministry of Finance, which upset IMF because, the trepidation of hierarchical impasse and misimplementation of conditionality program. The trepidation came into being when the Ministry of Finance took control restructuring of eight banks from IBRA (Omori, 2014: 993). However, apart from the intervention of the government, the establishment of IBRA still deemed as major achievement of Indonesian banking restructuration and supervision. Still, unfortunately, the crisis continued and even exacerbated when the riots broke out on 21 May 1998 (Park, 2010). The riots forced Soeharto to relinquish his presidency following the humanitarian crisis that killed several university students and activists. Following that event, Soeharto long-lasting 32 years authoritarian regime has ended.

During the fall of Soeharto's regime, the IMF's conditionality programs continued, but delayed because of collusion of interest among Soeharto's family and cronies that still taking advantages of loopholes to protect the vested interest and assets of banks and conglomerates. After Soeharto was ousted, Vice President Habibie succeeded the mantle of presidency and inherit the ongoing IMF's conditionality program (Murphy, 1999). As technocrat himself, the

new president that famous for his eccentric background as aeronautical engineer filled the key position to economic technocrats, which differs from Soeharto's adjustment that filled the major post to his cronies (politicians). Ginandjar Kartasasmita and Widjojo Nitisastro filled the position as minister of economic affairs and senior economic advisor, respectively. Kartasasmita, the former minister mining, energy, and Head of the Indonesian National Development Planning Agency (BAPPENAS) considered as the most trusted by the IMF. Kartasasmita himself confessed that after the conditionality program had come into effect, matters relating to the financial and economic reforms had been led and administered towards its goals. IMF has often been leading and intervening in many of the government meetings (Omori, 2014). Therefore, the IMF has bound Indonesia in some way that denied Indonesia to have financial and economic sovereignty.

Under frantic and distraught condition of deepened economic crisis, Habibie does not have any option. He must abide to the conditionality program. The new government promptly carried out the reform agenda in the banking sector. On June 24, 1999, the first IMF package was taken under Habibie's new cabinet following financial reforms measure that indicate the further liberalization of financial sector in Indonesia. The measures were submission of a draft bill regarding the amendment of current banking law and submission of a bill to eliminate restriction on foreign investment in listed banks. In addition, the role of bank supervision was conceded from IBRA and returned to BI. Thus, IBRA only has authority over restructuring banking sectors. A huge leap to a more independent banking system and privatization of banking assets following the enactment of the new Central Bank Act No.23, 1999 (Omori, 2014). BI has been released from intervention of the government and able to execute its authority independently according to the law. The previous amendment also secured the allowance for foreign ownership of banks in Indonesia according to the IMF's rules.

The new phase of financial reform within the scope of IMF's rule continued after Habibie's office. The first democratic election for both legislative and executive was held by DPR alongside People's Consultative Assembly (MPR), which still constitutionally vested with the authority to elect president. MPR elected Abdurrahman Wahid (Gus Dur) as President and Megawati Soekarnoputri who is the daughter of the first president of Indonesia Soekarno as Vice President (Omori, 2014). However, Gus Dur's political party, National Awakening Party (PKB) was ranked fourth in legislative election, whereas Megawati's party, Indonesian Democratic Party of Struggle (PDIP) was ranked first, resulting to disproportion of power in parliament (Omori, 2014). To prevent deadlock between the president and parliament, Gus Dur formed a coalition that consisted main political parties. The key positions in economic and financial matters filled with individuals from the coalition party such as Kwik Kian Gie from PDIP as the coordinating minister of economy, finance, and industry, Bambang Sudibyo from National Mandate Party (PAN) as the minister of finance, and Jusuf Kalla from Golkar as the minister of industry and trade (Omori, 2014).

The new government faced with the same problem that is to restructure bank, which also the priority of IMF's conditionality program. The government took another LOI that extended the three-year fund facility. Contrary to IMF's expectation, IMF accused Gus Dur of lack of leadership and not committed to the implementation laid by IMF. In addition, Gus Dur's frequent dismissals of cabinet interrupted the implementation of financial reform. It clearly portrayed when Gus Dur dismissed Syahril Sabirin who was governor of BI. The dismissal disrupted the IMF implementation review. IMF strongly criticized Gus Dur for his inability to make policy initiatives. On the other hand, Gus Dur rebutted that IMF implementation is too strict and tends to be imposing unrealistic conditions. Political paralysis among Gus Dur, the cabinet, and IMF often resulted in postponement of IMF's program review that also ensued to no disbursement of loans (Omori, 2014).



### **The Establishment of Otoritas Jasa Keuangan (OJK) in 2012**

Legally speaking, the mandate to establish an independent body that has authority over banking supervision stated clearly in Article 33 point 1 and 2 of Central Bank Act No.23, 1999. The article stated that the independent financial service authority (FSA) based on the law (undang-undang) will conduct banking supervision and the establishment of such independent financial service shall be conducted on 31 December 2002, at the latest (Surbakti, 2018). Therefore, the establishment of OJK has already been prescribed, although the specific name 'OJK' has not yet been revealed (Surbakti, 2018). However, it was too far-fetched to say that this establishment was the result of IMF's reform agenda. Because there is no direct, historical evidence within IMF's LOI and conditionality programs that mentioned establishment of independent FSA.

There was an outside influence or recommendation to divide the macro-prudential (monetary policy) and micro-prudential (banking supervision) authority (Pradiptyo et al., 2011). However, it came not from IMF but the World Bank. One of the pressing issues that Habibie's cabinet tasked for was the immediate solution to combat infirmity of banking supervision that often the cause of moral hazard (Pradiptyo et al., 2011). The World Bank argues that one of the reasons of financial crisis in 1997/8 was the BI's lack of supervision to banks that showed unacceptable lending behavior and the involvement of BI's employees in neglecting such practice. The idea is to create institutional effectiveness and independence to both monetary and banking supervision authority (Pradiptyo et al., 2011). The World Bank suggested that should be three major separations for banking sector: monetary function and lender of last resort that of BI, banking supervision that held by OJK, and customer deposit insurance following the establishment of Indonesia Deposit Insurance Corporation (Lembaga Penjamin Simpanan/LPS) (Mamuaja, 2015).

As stated in the new Central Bank Act, the establishment of an independent FSA shall be implemented no longer than 31 December 2002. In fact, OJK was established in 2012 following the enactment of the New Act Number 21-year 2011 regarding OJK. The long-awaited FSA was finally established because of the aftermath of Century Bank scandal that happened in 2008 (Savitri, 2014). Between 1999 until 2012, there were too many veto players involved in the process of establishing OJK, which makes it hard to arrive at consensus. The deadlock also happened when the president submitted the new bill of OJK to the House of Representative (DPR). They were concerned about the selection mechanism for OJK commissioners. Finance Minister Agus Martowardojo suggested that the formation would be two seats for two ex-officials from BI and Ministry of Finance, three seats appointed by the president, and another four seats upon recommendation from DPR. However, Golkar and PDI-P opposed the given formation because they consider that should be more seats for BI and Ministry of Finance. They argued that OJK shall be independent; appointing four seats to the discretion of the president alone would fear that the government could interfere OJK. However, the government resisted the idea; they argued too many political interferences can postpone the establishment of OJK much longer. Eventually, the formation agreed in following condition: two seats for two ex-officials from BI and Ministry of Finance, and the rest of seven seats would be appointed by DPR from vetted presidential nominees (Omori, 2014).

On the other hand, BI elites were harboring sentiment to the establishment of OJK. They rejected the idea to separate banking supervision into other independent bodies since 1999. The main reason is there would be a massive shift in the distribution of assets from the state's budget. Thus, conceding one's authority to another entity means that the budget to operate such authority will be taken, accordingly. Many BI elites rejected the ramification that will happen if OJK exist (Omori, 2014). In addition, many BI employees do not want to move to OJK, as there will be an exodus from BI to OJK to fill the need of labor. To be BI employees regarded very prestigious because of the high rate of salary and lot of allowances available. BI employees

are scared that they loss such benefits if they ever move to a new institution like OJK. Theoretically this is a simple issue, just by setting the standard of salary and allowance as in BI, the problem should be solved. In fact, the problem is a lot tricky in practice. People have a disposition to create an irrational fear of new changes, especially regarding their welfare. Habibie also applied this same logic to solve the culture of corruption within BI. He raised BI employees' salary to considerable amount to prevent them to do criminal act of corruption (Annisa & Pangestuty, 2014).

Institutional affiliation does influence individual assumption and bias. BI's sentiment towards the establishment of OJK was/is unsurprisingly common to the practice of decision making. Such people have a different set of rationality from other groups of people that also have their own unique set of rationality. In this case, majority of Indonesian people that represented by the parliament, most of executives, and legal statute which is the Act No.23 Year 1999 subscribed to the rationality that banking supervision would be effective and properly executed with OJK. On the other hand, most of BI staff and elites hold that banking supervision shall not be separated from BI, because of the interconnectedness of macro and micro prudential policy that would be difficult to manage if handled by two separate institutions. The rationality can also be contingent, an individual often faced with uncertainty and oscillating nature of rationality when he or she moves into environment that have different paradigm. Darmin Nasution, the former Director General of Ministry of Finance supported the establishment of OJK in 2000 until 2005, however, following his appointment to Senior Deputy Governor of BI in 2009, he shifted his position to rejecting the establishment of OJK. In addition, Agus Martowardojo had the same condition as Nasution. He staunchly supported the establishment of OJK in 2010-2013, when he was the Minister of Finance. Although, he switched to rejecting the establishment OJK when he got the occupation as Governor of BI in 2013. Those examples accurately represent the change of decision because institutional affiliation. However, this rationality shifting is not solely based on political motive; in fact, the different rationality applies to different institutions (Annisa & Pangestuty, 2014).

Beside the prolonged disagreement in the establishment of OJK, the discourse develops further to which form of FSA appropriate for OJK. The traditional form of FSA is called 'Traditional Tripartite' that distinguishes the supervision of bank, capital market, and insurance. The new form develops from the traditional concept into a form called 'Single Body'. This form suggested putting the supervision of bank, capital market, and insurance into one single institution. The latest development of FSA is called 'Twin Peaks' that has specific fundamental separation regarding financial supervision namely: systemic protection and consumer protection (Pradiptyo et al., 2011). The latter form has adopted by United States and United Kingdom. On the other hand, Indonesia strictly follows the 'Single Body' concept (Briault, 1999). Although, there is no systematic rationality in why Indonesia adopts this concept, which reflected in lack of elaboration and argumentation within academic script (*naskah akademik*) of Act No.21 Year 2011 regarding OJK, beside the plethora of academic reference that explain the strengths of 'Single Body' system. The lack of such rational legalism in deciding the form of OJK leaves hermeneutical speculation that OJK influenced by Germany's type of FSA that also adopts 'Single Body' system. The involvement of Helmut Schelesinger emphasizes the influence (Goodhart & Schoenmaker, 1995).

It would be nearly impossible to describe the technical impact of OJK in the financial system in Indonesia, let alone, considering the limitations of this journal and it would be deviated from this paper topic. Thus, the impact that the author deems essential to discuss is particularly the political impact of the establishment of OJK, especially when major corruption scandal happened, like Jiwasraya case which challenge the legitimacy of OJK as the authority of such matter. Not to speak of, the technical impact and effectiveness of OJK has been claimed by OJK itself with high regard in its yearly report. Even though many critics of OJK policies have

had the opportunity to laid out the evidence why OJK failed to construct effective and accurate policy in its vast regulatory jurisdiction (Yulianti, 2019). Yet, the technical impacts and effectiveness of OJK in economical perspective is rarely represented in the political discourse regarding the existence of OJK. The existence of OJK rests on published national scandals like Jiwasraya and Asabri which really captivated media audience. After the alleged accusations of OJK being unresponsive towards such cases, the discourse of dissolving OJK has arose in public. High ranking officials like Bambang Soesatyo propose that OJK no longer serve the nation's need in creating robust financial system. He argues that separate institutions dealing with adjacent matters which are monetary and supervisory function will create further confusion and miscommunication. It would be best to merge those functions with the central bank as it was. In fact, OJK existence had been challenged since its formulation, many central bank officials disagree with the establishment of OJK. The rejections had created a racket within the public which prompted former governor of Bank Indonesia Agus Martowardojo to quip those officials who reject as low-quality employees. Therefore, the rational and technical assessment of the performance of OJK has little significance in political discourse, especially in matters of whether OJK should be preserved or dissolved. Thus, there is a striking contrast to the political and rational realm which empirically cannot seem to be consolidated.

## Conclusion and Discussion

Decision-making process in reforming Indonesia's financial and economic system surely loaded by political interest, although the legal principle stated that decision must be carried out with rational expectation according to national interest. In practice, the discourse and debate are often based on political interest that largely ignores the principle of economic which is simple trade-offs. In addition, the proponent of major financial reforms such as the separation of monetary and regulatory function between central bank and OJK framed the decision as completely rational and economic, in fact it was laden with political motifs. However, the gap between rational and political decision is often blurred because there are only few options to carry out financial reforms as to implement such reforms require resources to analyses vast information in order to come with accurate rational decision, in contrast, political decision is cheaper and more practical which is proved in the academic script of The Law Number 21 Year 2012 regarding OJK which really is undescriptive. Moreover, foreign influence is immanent to the survival of national economy; a country can no longer assume independence in regard to its economic policy although the wealth is abundance, every country in the world is subjected to the nexus of international economy without an exception which forced nation that has low standing in global finance like Indonesia to obey the stipulation of the ruling international organizations like IMF and World Bank thus makes it difficult to cast rational decisions.

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