CRYPTOCURRENCIES AND THE FUTURE OF GOOD FINANCIAL GOVERNANCE

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ABSTRACT

This research aims to draw distinctions between the Monetary School and Kakistoscryptocracy, as well as to examine how cryptocurrencies might shape the future of effective financial governance. The investigation relied on documentary research, revealing that the Monetary School primarily focused on principles like government-backed currency, central bank supervision, and monetary stability. In contrast, Kakistoscryptocracy emphasized unregulated activities by non-state actors in the digital realm, challenging conventional governance systems with wide-ranging global implications. Furthermore, our investigation revealed two distinct cryptocurrency scenarios: one featuring government-based digital currencies (GCs) and the other non-government-based cryptocurrencies (NGCs). The best scenario held the promise of positively revolutionizing financial governance through the introduction of advanced tools promoting transparency and inclusivity. However, the worst scenario argued that these currencies also posed risks to financial governance, including the potential for surveillance, erosion of privacy, and facilitation of illicit activities, which could have jeopardized global financial stability. Based on a SWOT analysis, three strategies for governments to address Kakistoscryptocracy were as follows: enhancing regulatory frameworks, promoting a Central Bank Digital Currency (CBDC), and fostering collaborative international efforts.

Keywords: Cryptocurrencies, Future of Good Financial Governance

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INTRODUCTION

Cryptocurrency, often referred to as non-government-based cryptocurrency (NGC), is a topic that remains among the least understood in the realm of Public Administration, despite being one of the most globally popular subjects. It is frequently conflated with blockchain technology, when in reality, it represents one of the applications of blockchain, starting from January 3, 2009 (Particularly thanks to Ganne, 2018; Lewis, 2018). This lack of comprehension can be attributed to the fact that during the initial years of blockchain's development, often termed Blockchain 1.0, it was primarily associated with Bitcoin as a digital currency. However, it's important to note that both cryptocurrency and blockchain have been evolving in tandem since 2008, as two interrelated aspects of the same concept (Particularly thanks to Swan, 2015; Tanwar, 2022). It's worth highlighting that Bitcoin was not the world's first digital currency. In the years spanning 1990 to 1998, there was a precursor to cryptocurrency known as DigiCash, pioneered by David Chaum. Unfortunately, this early centralized form of digital currency, differing from the contemporary decentralized non-government-based cryptocurrency, met its demise in 1998 (Extance, 2015). Furthermore, during the same timeframe as DigiCash in the early 1990s, the Bank of Finland initiated the Avant project, marking the first endeavor to create a government-controlled digital currency, commonly referred to as government-based cryptocurrency (GC), often in the form of Central Bank Digital Currency (CBDC) (Grym, 2020). This underscores the fact that government-based digital currencies predate the advent of non-government-based cryptocurrencies. It's important to highlight that GC, rooted in the principles of the monetary school of economics, serves as the foremost and most substantial financial effort intended to address and counter all NGCs (Gohwong, 2021a). The emergence of two distinct categories of digital currencies, GCs and NGCs, gives rise to a phenomenon with far-reaching implications for governments and their sovereignty. Coined as "Kakistoscryptocracy" by Srirath Gohwong in 2023, it represents a dynamic shift in the way power is wielded and digital currencies are harnessed by various actors, including private individuals, organizations (such as private firms and political parties), and financial entities like hedge funds. Kakistoscryptocracy is marked by its anarchy-like nature, where these actors autonomously create, organize, and utilize digital currency outside the bounds of established laws and regulations, often for their own unethical or illegal objectives.

This development creates a significant threat to governments, which traditionally act as representatives of the people and guardians of sovereignty. The anarchical nature of Kakistoscryptocracy challenges the authority of governments, as it enables actors to conduct financial affairs, including those associated with unscrupulous activities such as drug trafficking, human trafficking, organ trafficking, fraudulent practices involving documents like passports and credit cards, as well as more grave offenses like assassinations, terrorism financing, tax evasion, corruption, bribery, and illegal political party fundraising. This poses a direct challenge to governments' capacity to maintain law and order, regulate economic activities, and protect the rights and well-being of their citizens. In addition, the existence of both GCs and NGCs in the Kakistoscryptocracy landscape presents a dual challenge. GCs could be harnessed for ethical and legitimate purposes, but they may face skepticism due to concerns over government surveillance and control. Meanwhile, NGCs clearly offer a degree of privacy and decentralization but can be exploited for illicit purposes. This duality highlights the importance of regulatory frameworks, international cooperation, and striking a balance between individual freedoms and societal responsibility to navigate the challenges and opportunities inherent in this evolving financial landscape (Inspired by Gohwong, 2023). Due to the emergence of Kakistoscryptocracy, this study seeks to contrast the distinctions between the Monetary School and Kakistoscryptocracy, as well as to investigate the scenarios of cryptocurrencies and their potential effects on the future of effective financial governance.

LITERATURE REVIEWS

Blockchain

Blockchain was an open and decentralized database that served as a shared ledger where all participants in the network had access to the same set of data. What made blockchain unique was its ability to verify and secure this data through predetermined consensus methods, all without the need for intermediaries or third parties. It was a technology applied to various aspects of human affairs, with one of its most prominent applications being in the world of cryptocurrency. It was a common feature in both GCs and NGCs. However, its role and objectives varied depending on whether it was used to support a government's digital currency or a decentralized cryptocurrency like Bitcoin or Ethereum. In GCs, blockchain was utilized to ensure control, compliance, and security, while in NGCs, it enabled decentralization, transparency, and autonomy. To encourage effective governance and establish transparency and accountability in trustless networks, data within a blockchain was structured into discrete units of information called blocks. These blocks were linked together in a chronological chain, forming a secure and unchangeable record of transactions, digital assets, or personal information. In most cryptocurrencies, once data was recorded in a blockchain, it could not be deleted, ensuring data integrity. All records were distributed to all nodes or IT devices within the network, including computers and mobile phones, promoting good governance by enhancing transparency and accountability. Moreover, the applications of blockchain had evolved through different generations, including Blockchain 1.0, bringing forth the idea within the context of Bitcoin and its emphasis on using a database structure for monetary transactions, Blockchain 2.0 with the advent of smart contracts, Blockchain 3.0 focusing on decentralized applications (DApps), and beyond. These generations had brought innovation and improvements, such as different consensus mechanisms like Proof-of-Work (PoW) and Proof-of-Stake (PoS), to validate and secure data. Although originally conceived for cryptocurrencies, blockchain technology's versatility had led to its adoption in numerous industries, encompassing supply chain management, healthcare administration, the collection of IoT data, financial services, and beyond. This evolution aligned with the requirements of Industry 4.0, and the ongoing development of blockchain technology, including IoT integration in Blockchain 4.0 and the advancements seen in Blockchain 5.0 exemplified by Relictum Pro. In essence, blockchain was a groundbreaking technology that had revolutionized the way data was stored, verified, and shared. It ensured trust and security in a decentralized environment, offering benefits beyond the realm of cryptocurrencies, making it a fundamental innovation in various industries worldwide (Particularly thank Franco, 2015; Ganne, 2018; Gohwong, 2018, 2019; Halaburda, Sarvary, Haeringer, 2022; Swan, 2015; Tanwar, 2022).

Kakistoscryptocracy

“Kakistoscryptocracy,” a term introduced by Srirath Gohwong, characterized a scenario in which non-state actors, including entities like businesses, hedge funds, individuals, and net states, wielded extraordinary power in a lawless fashion. This phenomenon spanned borders, primarily manifesting in the virtual world and metaverse. Within this realm, these non-state actors engaged in a range of unlawful activities driven by their personal interests, all while evading government oversight. These activities included tax evasion, terrorism financing, drug trafficking, human trafficking, organ trafficking, financial fraud, and cybercrimes. Kakistoscryptocracy underscored the growing influence of non-state actors who exploited digital technologies and cryptocurrencies to evade regulation and taxation, carving out their own territories in underground websites and metaverse platforms. They diversified their income streams through illicit enterprises, leveraging decentralized tools like BitTorrent, NGCs, and metaverse environments to operate independently of governmental control. In response to the challenge posed by Kakistoscryptocracy, two solutions were proposed. The first involved appointing tech ambassadors who served as diplomatic intermediaries between legal

non-state actors in both physical and virtual domains, offering policy guidance to government agencies. This approach aimed to foster collaboration and positive relations. The second solution, known as the Corsair approach, sought to reduce the influence of illegal non-state actors by forming alliances with dark IT professionals, such as cybercriminals and hackers, to confine unlawful activities to restricted areas through measures like legalization and taxation. Both solutions aimed to safeguard state authority and power in the face of the threats arising from Kakistoscryptocracy (Gohwong, 2023).

Monetary School

The Monetary School, also known as the Currency School, exemplified by economists like David Ricardo and Henry Thornton, underscored the fundamental role of fiat currency in contemporary economies. Contemporary monetary systems were based on fiat currency, which was a currency issued by the government and derived its value from government support and the trust of the public, rather than being linked to tangible assets such as gold. This principle signified the crucial recognition of fiat currency as the linchpin of modern monetary frameworks, representing the transition from commodity-backed money to government-backed fiat currency. Moreover, the Monetary School advocated for effective money supply management, central bank oversight in the banking sector, and the central bank's role as a lender of last resort during financial crises, all of which remained pertinent in shaping modern central banking practices, contributing to enduring relevance in monetary economics and financial regulation (Particularly thank Ricardo, 1824; Thornton, 1965; Walsh, 2010).

RESEARCH METHODOLOGY

This study utilized documentary research, involving the collection of information and data from a wide array of sources like books, academic papers, and online materials. The approach entailed a methodical examination and analysis of pre-existing documents, laying the groundwork for a thorough understanding of the research subject, and facilitating insight acquisition, data collection, and deeper comprehension by the author.

RESEARCH RESULTS

Comparison between the Monetary School and Kakistoscryptocracy

The contrast between the “Monetary School” and the concept of “Kakistoscryptocracy” was evident in their focus, principles, and implications for economic and governance systems. The Monetary School's influence predominantly resided within economic theory and central banking practices, focusing on monetary aspects of governance and economic stability. In contrast, Kakistoscryptocracy operated across borders and challenged governance structures worldwide, operating in a lawless digital realm. This section was greatly indebted to the contributions of various authors, including Gohwong (2018, 2019 and 2023), Ricardo (1824), Thornton (1965), and Walsh (2010). Each concept was further expanded as follows. The Monetary School, led by influential economists like David Ricardo and Henry Thornton, focused on the intricacies of modern monetary systems that had evolved from reliance on tangible assets like gold to being anchored in government-issued fiat currency. Its guiding principles revolved around key aspects, including economic stability, government-backed currency, effective money supply management, central bank regulation, and the central bank's pivotal role as a lender of last resort during financial crises. These enduring principles held significant relevance in the fields of monetary economics and financial regulation, providing a foundation for understanding and managing modern monetary systems. GCs aligned seamlessly with the core tenets of the Monetary School, reinforcing the fundamental role of fiat currency in contemporary economies. They shared the Monetary School's emphasis on the importance of fiat currency, which derived its value from government support and public trust rather than being tied to physical assets. GCs further supported the principles of effective

money supply management, as central banks, often in partnership with the government, regulated these digital currencies' quantity and value. Moreover, these GCs often included measures for the regulation or even prohibition of NGCs, underscoring the presence of government oversight and regulation in the digital currency domain. In conclusion, GCs echoed the Monetary School's emphasis on economic stability, government-backed currency, and central bank regulation, underlining their continued relevance in monetary economics and financial regulation.

On the other hand, Kakistoscryptocracy introduced a concept that underscored the increasing impact of non-state actors operating without government oversight, mainly within the virtual realm and metaverse. These actors were involved in a variety of unlawful activities motivated by personal interests, including tax evasion, terrorism financing, and drug trafficking, employing digital technologies and NGCs to avoid government scrutiny. Consequently, Kakistoscryptocracy posed a significant challenge to traditional governance structures, with its repercussions transcending national boundaries and exerting a global influence. NGCs aligned with the concept of Kakistoscryptocracy, which accentuated the expanding influence of non-state actors functioning without government regulation within the virtual world and metaverse. These non-state actors participated in diverse illicit undertakings, like money laundering, human trafficking, and drug trafficking, utilizing digital technologies and NGCs to evade government supervision. This alignment became evident through various essential characteristics of NGCs. NGCs offered a platform for carrying out unlawful activities, facilitated by privacy-focused features such as Virtual Private Networks (VPNs), CryptoNote, and CryptoNight. These features empowered non-state actors to operate beyond the reach of government oversight and control. In addition, the wide variety of NGCs, including those with uncertain code sources or derived from existing NGCs, enabled actors in Kakistoscryptocracy to conduct their pursuits with a degree of anonymity and flexibility, making it challenging for governments to monitor and regulate their actions.

The scenarios of cryptocurrencies and their potential effects on the future of effective financial governance

This section acknowledged the significant contributions of various authors, including Gohwong (2018, 2019, 2021b and 2023), Ricardo (1824), Thornton (1965), and Walsh (2010). Two scenarios existed regarding cryptocurrencies and their potential impact on the future of efficient financial governance. In the best-case scenario, cryptocurrencies, whether GCs or NGCs, offered transformative potential for the future of effective financial governance. GCs, in particular, provided governments with enhanced tools for managing their monetary systems. These digital currencies enabled more efficient money supply control, improved transparency in financial transactions, reduced fraud, and enhanced cross-border financial operations. GCs also facilitated financial inclusion, offering previously unbanked or underbanked populations access to formal financial services. Moreover, they allowed governments to adapt to the evolving digital landscape, reinforcing their financial governance capabilities in the face of rapid technological changes. Furthermore, NGCs fostered innovation in the financial sector and provided alternative means of value exchange. In a best-case scenario, these digital currencies encouraged governments to adapt their financial regulations and systems to meet the needs and demands of a digital-savvy population. NGCs helped drive financial governance reforms by promoting transparency, reducing corruption, and enhancing security in traditional financial systems. This alignment with digital currencies led to a more efficient, inclusive, and responsive financial governance framework that addressed the challenges and opportunities of the digital age.

In contrast to the more optimistic scenario, in the worst-case scenario, cryptocurrencies, both GCs and NGCs, posed several threats to the future of effective financial governance. GCs, while offering advantages, risked becoming tools of surveillance and control, eroding privacy

and civil liberties. If not properly managed, they could lead to centralization of financial power, potentially favoring financial institutions and governments over individual financial autonomy. Mismanagement, hacking, or misuse of GCs could also result in financial crises, undermining trust in the financial system and government. On the other hand, NGCs might exacerbate financial governance challenges. In a worst-case scenario, these digital currencies could be exploited by criminal and malicious actors, fostering illegal activities such as money laundering, terrorism financing, and tax evasion. The decentralized and pseudonymous nature of these currencies could make it difficult for governments to enforce financial regulations, combat fraud, or ensure financial stability. This lack of control could lead to a breakdown of traditional financial governance structures, posing a global risk as illicit activities extended across borders and undermined the stability of the international financial system.

DISCUSSION & CONCLUSION

This section is greatly indebted to the contributions of various authors, including David, David, and David (2023), Ricardo (1824), Thornton (1965), Walsh (2010), Halaburda, Sarvary, Haeringer (2022), Lewi (2018) and Gohwong (2018, 2019, 2020, 2021a, 2021b and 2023). Upon examining the research aimed at elucidating the differences between the Monetary School and Kakistoscryptocracy and investigating the potential impact of cryptocurrencies on the future of effective financial governance, the conclusions can be summarized as follows: The Monetary School primarily centers its focus on the core tenets of government-backed currency, central bank oversight, and monetary stability. In contrast, Kakistoscryptocracy places its emphasis on the unregulated activities of non-state actors operating in the virtual domain, challenging conventional governance structures with far-reaching global consequences. Furthermore, within two contrasting scenarios, cryptocurrencies, encompassing both GCs and NGCs, offer the potential to revolutionize financial governance in a positive manner by introducing advanced tools for transparency and inclusivity. Conversely, they also present the risk of impacting financial governance negatively, including issues such as surveillance, erosion of privacy, and the facilitation of illicit activities. These negative aspects could potentially undermine global financial stability. In this section, the author will investigate how Kakistoscryptocracy could surpass the Monetary School in the cryptocurrency arena using the SWOT framework.

In terms of strengths, Kakistoscryptocracy demonstrates remarkable abilities in adapting to the dynamic digital landscape and embracing rapid technological advancements. Non-state actors, particularly those engaging with NGCs, showcase agility and innovation in adopting emerging technologies, setting them apart from conventional government systems. Next, their characteristic decentralization offers a notable advantage, as it presents a challenge for governments aiming to exercise control and regulation over their operations, granting them a level of autonomy and independence from governmental interference. Last, the utilization of NGCs by non-state actors provides access to built-in privacy features commonly found in NGCs, rendering it difficult for authorities to monitor their actions and affording a measure of security against surveillance.

Among the weaknesses of Kakistoscryptocracy, a significant concern is the lack of regulatory oversight, which exposes the potential for NGCs to be exploited for unlawful purposes like money laundering, terrorism financing, and tax evasion due to the absence of effective checks and balances. Moreover, operational risks pose a threat, as non-state actors may lack the financial resources, stability, and risk management capabilities that governments typically possess. This could result in mismanagement, hacking incidents, or other operational failures, potentially leading to financial crises and eroding trust in NGCs.

Kakistoscryptocracy presents distinctive opportunities, such as its global reach, which enables actors to engage in cross-border transactions, capitalizing on variances in legal and regulatory

frameworks across countries while operating beyond government jurisdiction. In addition, the innovation it fosters in the financial sector, particularly through non-government-based cryptocurrencies, can serve as a catalyst for challenging and redefining traditional financial regulations and systems. This innovation holds the potential to introduce novel and alternative methods of value exchange and financial services, further diversifying the financial landscape. The Monetary School faces several threats, notably stemming from Kakistoscryptocracy's potential to erode its core strengths, specifically government control, and regulation, especially if these non-state actors operate in manners that challenge or circumvent government authority. The apprehensions surrounding privacy and civil liberties related to GCs could incite public backlash and resistance against these digital currencies. Moreover, the Monetary School may encounter technology-related challenges, given the swiftly evolving digital landscape and rapid technological advancements. This may result in difficulties in keeping pace with the innovative technologies and operational methods employed by NGCs.

Following the SWOT analysis, the author puts forth three essential strategies that the government can utilize to address Kakistoscryptocracy and the difficulties brought about by NGCs. First, the government can bolster its regulatory framework to confront the challenges linked to NGCs. This entails the creation of well-defined guidelines and oversight mechanisms for NGCs' transactions, aimed at combating issues like money laundering, terrorism financing, and tax evasion. Through the enforcement of stringent regulations, the government can curtail the improper use of NGCs for illicit purposes, consequently diminishing the risks posed by Kakistoscryptocracy. NGCs, the government can impose higher transparency and accountability standards on NGC exchanges and wallet providers, ensuring their compliance with regulatory measures. Second, the government can advocate for the adoption of its own CBDC in order to uphold authority over the monetary system and counter the ascent of NGCs. The CBDC can serve as a secure and regulated digital substitute for NGCs, motivating citizens to embrace a government-supported digital currency for their daily transactions. By presenting a credible and user-friendly alternative, the government can diminish the attraction of NGCs and preserve its position within the monetary system. Last, given the cross-border nature of Kakistoscryptocracy, governments can engage in international cooperation and information sharing in data governance in the public sector to combat the illicit use of NGCs. By forming collaborations with other nations, governments can work collectively to track and apprehend individuals involved in illegal activities, including money laundering and terrorism financing, which are common concerns with NGCs. These international efforts can facilitate the sharing of critical information and intelligence to address the challenges posed by NGCs, creating a unified approach to regulating and controlling their use. This strategy leverages the power of international cooperation to combat the activities of non-state actors operating in the digital realm, promoting a more secure and regulated environment for digital transactions.

In conclusion, this research distinguishes between the Monetary School and Kakistoscryptocracy while examining the potential impact of cryptocurrencies on the future of effective financial governance. Documentary research revealed that the Monetary School focused on government-backed currency and monetary stability, while Kakistoscryptocracy emphasized unregulated activities by non-state actors in the digital domain, challenging global governance systems. The paper presented two scenarios: one where GCs and NGCs enhanced financial governance, and another where they posed threats such as surveillance and criminal exploitation. A SWOT analysis led to three proposed strategies: strengthening regulatory frameworks, promoting GCs, and fostering international cooperation for a more secure digital transaction environment.

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