

The Failure of Neoliberalism and the Free Market in Cryptocurrencies: A Case Study of South Korea's Role in the Crash of Terra Luna (LUNA)

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ABSTRACT

This study investigates the failure of implementing neoliberalism and free market principles in cryptocurrencies, focusing on South Korea's response to the collapse of LUNA. Despite the promise of decentralization and peer-to-peer transactions inherent in cryptocurrencies, the collapse of LUNA highlights the limitations of unfettered market dynamics in ensuring stability and security. Using a qualitative research approach, this study examines the case of LUNA's collapse within the framework of neoliberal and free market concepts. Drawing on secondary sources such as articles, news, and internet sites, the research sheds light on the complexities of regulating decentralized financial systems. The findings reveal that the South Korean government intervened in the cryptocurrency market following the LUNA collapse to prevent similar incidents and establish regulatory frameworks for crypto assets. This intervention underscores the need for government oversight to maintain market stability and protect investors in the face of market volatility and manipulation. Furthermore, the study discusses the broader implications of these findings for cryptocurrency regulation and neoliberal economic policies. By examining the tensions between decentralized finance and neoliberal principles, the research contributes to a deeper understanding of the evolving relationship between government intervention and market dynamics in the cryptocurrency ecosystem. In conclusion, the study highlights the importance of regulatory oversight in safeguarding the integrity of cryptocurrency markets and ensuring the long-term sustainability of decentralized financial systems.

Keywords: *cryptocurrency; Luna; South Korea; neoliberalism; free market*

ABSTRAK

Penelitian ini menelusuri kegagalan penerapan prinsip neoliberalisme dan pasar bebas dalam cryptocurrency, dengan fokus pada respons Korea Selatan terhadap keruntuhan LUNA. Meskipun janji desentralisasi dan transaksi peer-to-peer terdapat dalam cryptocurrency, keruntuhan LUNA menyoroti keterbatasan dinamika pasar tanpa batasan dalam menjamin stabilitas dan keamanan. Dengan menggunakan pendekatan penelitian kualitatif, studi ini menguji kasus keruntuhan LUNA dalam kerangka kebijakan ekonomi neoliberal dan konsep pasar bebas. Dengan merujuk pada sumber sekunder seperti artikel, berita, dan situs internet, penelitian ini menerangi kompleksitas dalam mengatur sistem keuangan desentralisasi. Penelitian ini menunjukkan bahwa pemerintah Korea Selatan turut campur dalam pasar cryptocurrency setelah keruntuhan LUNA untuk mencegah kejadian serupa dan membentuk kerangka kerja regulasi untuk aset kripto. Intervensi ini menegaskan perlunya pengawasan pemerintah untuk menjaga stabilitas pasar dan melindungi investor di tengah volatilitas dan manipulasi pasar. Penelitian ini juga membahas implikasi lebih luas dari temuan ini untuk regulasi cryptocurrency dan kebijakan ekonomi neoliberal. Dengan meneliti ketegangan antara keuangan desentralisasi dan prinsip neoliberal, penelitian ini berkontribusi pada pemahaman yang lebih dalam tentang hubungan yang berkembang antara intervensi pemerintah dan dinamika pasar dalam ekosistem cryptocurrency. Kesimpulan dari penelitian ini menyoroti pentingnya pengawasan regulasi dalam menjaga integritas pasar cryptocurrency dan memastikan keberlanjutan jangka panjang dari sistem keuangan desentralisasi.

Kata Kunci: mata uang kripto; Luna; Korea Selatan; neoliberalisme; pasar bebas

Introduction

The cryptocurrency was born out of concern for privacy in financial transactions. The history of cryptocurrency began with American cryptographer David Chaum, who created the first form of crypto in the early 1980s, ECash. Even though there were never large transactions during its existence, this innovation is recognized as the beginning of electronic commerce. In 1984, Chaum also created an electronic payment system that was virtually untraceable by banking systems or government agencies.¹ After the innovations made by Chaum, various cryptocurrency developments prompted interest from the Massachusetts Institute of Technology (MIT) in creating various variations of cryptocurrency on a small scale.²

Cryptocurrency became increasingly known to the public after Satoshi Nakamoto published a white paper in November 2008 which aimed to propose Bitcoin as the first electronic payment system based on a decentralized peer-to-peer network (PTP) and did not need a third party. This innovation uses blockchain technology which is considered a significant breakthrough in computing technology. The blockchain is a database of all transactions made within the PTP network. This technology creates an open network where users do not need to know each other to interact and transact. The transaction process is also verified automatically through cryptographic algorithms without human intervention, whether from authorities, governments, banks, institutions or other third parties.³

One cryptocurrency that has experienced glory is Terra LUNA, a blockchain-based project developed by Terra Labs in South Korea. Terra implements a stablecoin system with Terra USD (UST), a cryptocurrency with a value pegged to various assets, namely commodities and fiat currency.⁴ However, the Terra ecosystem collapsed in 2022 due to the deprecation of the value of the UST stablecoin and causing inflation in the LUNA and UST pegs. After the collapse phenomenon, Terra Labs issued a new token with the name Terra LUNA and changed the previous LUNA and UST tokens to Terra LUNA Classic (LUNC) and Terra Classic USD (USTC).

Various studies on the Terra ecosystem's destruction have been carried out. This phenomenon significantly impacts investor confidence and market sentiment towards cryptocurrencies. To deal with this, substantial efforts are needed to manage the destruction of LUNA Classic. This recovery plan depends not only on the improvements made by Terra Labs, but the community of LUNC token holders also needs to support and commit to the recovery of the Terra ecosystem. Influencer communities are also influential in controlling rumors during times of crisis because they can change market sentiment.⁵

From these previous studies, the researcher proposed a novelty by discussing the failure of cryptocurrency in terms of neoliberalism and the free market in the case study of the destruction of Luna

¹Chohan, U. W. "A History of Bitcoin." *SSRN Electronic Journal*, 2017: 1-11.

²Mitchell Rice *Cryptocurrency: History, Advantages, Disadvantages, and the Future*. Liberty University, 2019.

³Marcella Atzori. "Blockchain Technology and Decentralized Governance: Is the State Still Necessary?" *Journal of Governance and Regulation* 6, no. 1 (2017): 45-62.

⁴Sandor, Krisztian. *What Is LUNA and UST? A Guide to the Terra Ecosystem*. May 10, 2022.

<https://www.coindesk.com/learn/what-is-luna-and-ust-a-guide-to-the-terra-ecosystem/>.

⁵Lady Joanne, Tjahyana. "Crisis Response Strategies During Cryptocurrency Crash: A Netnographic Studies of Lunatics Community." *Petra International Journal of Business Studies* 5, no. 2 (2022): 145-154.

Classic and the role of the South Korean government. This study aims to explore the failure of the principles of neoliberalism and the free market.

Based on the aforementioned background, the researcher formulated a research question: how does the collapse of Terra LUNA Classic demonstrate the ongoing necessity for state intervention in free markets? This research query stems from the absence of government involvement in decentralized cryptocurrency activities and the belated anticipation of significant societal losses resulting in the need of the South Korean government to intervene in the collapse of Terra LUNA Classic.

Literature Review

a. Neoliberalism

Neoliberalism results from the efforts of liberals to formulate from the thoughts of realists who can avoid the excesses of the utopian nature of previous liberalist thoughts. Neoliberals still accept and use the ideas and thoughts of the old liberals regarding progress and change, but they do not accept idealism. They also began to use scientific methods in an attempt to formulate theories. Neoliberalism also provides a view in various schools that support one another. Neoliberalism also provides comprehensive and consistent arguments for more peaceful and cooperative international relations. In neoliberalism, it is hoped that there will be a liberal democracy that can live side by side and peacefully. Neoliberalism also focuses on transactions between countries which are expected to stimulate cooperation so that communication and peace between countries can be established.⁶

Liberal democracy is one of the themes developed in previous liberalism thinking. The existence of liberal democracy is expected to increase peace on the grounds that liberal democracies will not go to war. This thinking is strengthened by the spread of democratization that took place very quickly after the end of the Cold War. A liberal democracy alluded to three pillars. The first is the pillar which states that peaceful conflict resolution is carried out between democratic countries. Furthermore, it is stated that shared values exist among democratic countries, which are then considered the foundation for shared morals. Finally, it was stated that there is a need for economic cooperation among democratic countries. Neoliberals believe there will be periodic expansions of the “Zone of Peace” between liberal democracies, although, in the end, it is inevitable that periodic backsliding may occur.⁷ One of the characteristics of neoliberalism is that neoliberalism raises economic growth as one of the priorities that must be prioritized in efforts to increase cooperation between countries so that peace will be established between liberal democratic countries.

The most meaningful way of defining neoliberalism is by combining the policies of Ronald Reagan, Margaret Thatcher, and Deng Xiaoping with an analysis of the role of international institutions in promoting globalization and free trade. To liberate “freedom” and individual entrepreneurial skills within an institutional framework with solid property rights, free markets and free trade.⁸ The formation of this free market led to a series of changes which included market and industry deregulation, reduced taxes and fees, and the privatization of government functions into private business. Even neoliberalism is

⁶Jackson, Robert, and George Sorensen. *Introduction to International Relations*. New York: Oxford University Press, 2013.

⁷Ibid

⁸Harvey, David. *A Brief History of Neoliberalism*. Oxford: Oxford University Press, 2005.

characterized by a desire to expand markets into new “territories”, even those outside the market economy.

The presence of the concept of neoliberalism brings many benefits; for example, the expansion of global trade has saved people from poverty, and the entry of direct investment into developing countries is one way to transfer technology and knowledge. These profits can be maximized if restrictions on the movement of capital across borders are removed.⁹ In addition, the pattern of production, consumption, and finance in neoliberalism can also maintain a country's level of investment and GDP growth. Neoliberalism also encourages the free movement of goods, services, and capital, including money, across national boundaries. Companies, banks and individual investors can transfer and acquire property across national boundaries. This concept causes some benefits; even certain regions can transform into new economic giants, such as China.

Even so, neoliberalism cannot be reduced to a convincing ideology but has a broad spectrum of ideas.¹⁰ Deficiencies in this model can create instability at the macroeconomic level by abandoning policies that neutralize the effects of economic cycles (counter-cyclical) through state spending and taxation and reduce the effectiveness of "automatic stabilizers" that can balance the economy by relaxing public regulations in the financial sector.¹¹

Neoliberalism consists of economic theory and policy. So that the role of the state or government should be questioned, whether the involvement is eliminated. The state's role in this concept is preserved, but the state is given a limited economic role. Its role includes defining property rights, enforcing contracts, and regulating the money supply. According to Foucauldian analysis, “neoliberalism means less government but should not be interpreted as less government”.¹² In this case, the government acts as the executor of power to handle and offer specific strategies for solving a problem. That way, the government can arrange certain forms of intervention. For example, free market designs and laws are a form of direct government intervention. Although on the other hand, government intervention to correct market failures is viewed negatively with the argument that government intervention actually creates more problems.¹³

Neoliberalism underscores the importance of individual liberty, free markets, and the curtailment of governmental involvement in economic matters. Cryptocurrencies such as Bitcoin, which function autonomously of traditional banking institutions and state oversight, resonate with these principles by furnishing a decentralized and self-regulating framework for financial transactions.¹⁴ This decentralized structure facilitates peer-to-peer exchanges devoid of intermediary entities like banks, often synonymous with governmental oversight and regulation. The lack of a central governing authority in overseeing

⁹Ostry, Jonathan D., Prakash Loungani, and Davide Furceri. "Neoliberalism: Oversold." *IMF Finance & Development*, 2016: 38-39.

¹⁰Bayliss, Kate, Ben Fine, Mary Robertson, and Alfredo Saad-Filho. "Thirteen Things You Need to Know about Neoliberalism." *SAGE journals*, 2017: 5.

¹¹Kotz, David M. "Globalization and Neoliberalism." *Rethinking Marxism*, 2002: 64-67.

¹²Foucault, Michel. *The birth of biopolitics: Lectures at the college de France*. Basingstoke and New York: Palgrave Macmillan, 2008.

¹³Kotz, David M. "Globalization and Neoliberalism." *Rethinking Marxism*, 2002: 64-67.

¹⁴Trzcionka, Magdalena. "The Bitcoin – Democratic Money in a Neoliberal Economy." *Journal of American Studies* 19 (2018): 155-173.

currency supply and transaction validation echoes the neoliberal precept of minimizing state intervention in economic affairs.¹⁵

b. Free Market

The free market is an economic system in which economic decisions, and the prices of goods and services, are guided by the interactions of citizens and businesses, not by the decisions of state authorities. This system is different from a centrally planned economy; in a free market economic system, consumers express their choices through their decisions to allocate their money so that certain transactions occur. Trade relations in free markets primarily arise between and among producers of raw materials, producers of processed goods and services, retailers and consumers. The law of demand and supply determines the direction and speed of the movement of goods and services in a free market. Therefore, a free market economy is based on two assumptions, namely: (1) market forces (supply and demand) are the best determinants of what is suitable for the welfare of the state; and (2) market power is based on consumer decisions to optimize profits from various transactions.¹⁶

In addition, three assumptions emerge from free market proponents, namely: (1) the private sector is dynamic, productive, and reliable; (2) private institutions are superior to public institutions for the delivery of goods and services; (3) market efficiency is an appropriate criterion for social performance in all areas of community activity (Barkenov, Boyle and Rich 1989). Even though it is “free”, meaning when the market is allowed to operate on its own without the government, there is actually still government intervention, albeit relatively minimal, as a guarantor for a transactional environment through the development and enforcement of regulations.¹⁷ Most developed countries can be classified as having a mixed economy because they allow market forces to drive their activities but also involve government intervention to provide stability to the extent necessary.¹⁸

One of the products the government intervenes in is money. Money plays a vital role in the financial system; money is spread everywhere and used by people worldwide. Consumers use money as a medium of exchange; money can also store liquid value and as a basis for accounting. It is still very reasonable even to have governments around the world to be in complete control of money. To make money in the free market, we must first produce goods and then sell them on the market to make money. Meanwhile, the government gets money just by printing banknotes without any business, producing or selling goods, but the consequence is the potential effect of inflation in the market.¹⁹

The free market principles inherent in the design of Bitcoin are also reflective of neoliberal ideology. The cryptocurrency's valuation is contingent upon market dynamics of supply and demand,

¹⁵Campbell-Verduyn, Malcolm, ed. *Bitcoin and Beyond: Cryptocurrencies, Blockchains, and Global Governance*. London: Routledge, 2017.

¹⁶Chikozho, Claudious, and Everisto Mapedza. "Free-Market Economics and Developmental Statism as Political Paradigms: Implications for Water Governance Theory and Practice in Developing Countries." In *Freshwater Governance for the 21st Century*, by Inga Jacobs-Mata, Douglas J. Merrey, Anjal Prakash and Larry Swatuk, 51-79. Springer, 2016.

¹⁷Coates, D. *Models of capitalism: Growth and stagnation in the modern era*. Cambridge: Polity Press, 2000.

¹⁸Jessop, B. "Liberalism, neoliberalism, and urban governance: A state-theoretical perspective." *International Journal of Urban and Region Research*, 2002: 273-310.

¹⁹Gelfond, Robert. "Toward Free-Market Money." *Cato Journal*, 2001: 245-254.

devoid of governmental interference or manipulation of its worth.²⁰ This affords individuals the autonomy to dictate their utilization and investment strategies, thereby nurturing personal freedom and self-governance in economic decision-making. Neoliberal proponents regard this phenomenon favorably, envisaging it as a catalyst for heightened competition and ingenuity within the financial sphere, ultimately accruing benefits for individuals and the broader economy.²¹

Methodology

This study uses qualitative research methods to explain how the phenomenon of the collapse of LUNA Classic is a sign of the failure of neoliberalism and the free market in cryptocurrency trading. This phenomenon will be analyzed descriptively by using inductive research and making interpretations of the research.²² Using internet-based techniques, this study uses secondary data sources from books, journals, and websites. The analysis in this study uses numerical and non-numeric data because it includes numbers related to cryptocurrency trading.²³ In selecting data sources, specific criteria are meticulously evaluated to guarantee their pertinence and trustworthiness. Foremost among these considerations is the credibility and proficiency of the authors, alongside the esteemed standing of the publishing platforms. Additionally, the timeliness and comprehensiveness of the data are scrutinized to incorporate the most recent advancements and perspectives in cryptocurrency trading. Nonetheless, it is imperative to recognize the potential biases intrinsic to these sources, including author affiliations or funding origins, which could impact the interpretation of the findings.

Analysis

a. Cryptocurrency as A Modern Model of Neoliberalism and Free Market

Initially, the world's currencies used precious metals as currency backers, but no one could predict the improvements and ingenious ideas that would emerge. The creation of cryptocurrency is an innovation. The currency is formed in a virtual free market without intervention from the government to generate the money. Through the characteristics of their standard value and medium of exchange, cryptocurrencies have passed the free market test.²⁴ Cryptocurrency production takes time and energy consumption, and people have to mine to produce it. Cryptocurrency producers, including miners, use energy resources to create currency. So the cryptocurrency system does not allow government monopolies. In cryptocurrencies, inflation is contained and controlled yet predictable and transparent to all parties from the outset. So that inflation cannot be manipulated by the government. Most importantly, there is no compulsion to use cryptocurrency. Its use in virtual transactions is due to the individual's own free choice. Then from a hoarder's point of view, cryptocurrencies are not a substitute for gold or silver.

²⁰Campbell-Verduyn, Malcolm, ed. *Bitcoin and Beyond: Cryptocurrencies, Blockchains, and Global Governance*. London: Routledge, 2017.

²¹Goksaran, Efe Can. *An Analysis of Neoliberal Sociality in The Particular Case of Bitcoin*. Ankara: Middle East Technical University, 2017.

²²Creswell, John. *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. 3rd. London: Sage Publications, 2009.

²³Lamont. "Research Methods in International Relations." *SAGE*, 2015.

²⁴Iavorschi, Mihaela. "The Bitcoin Project and the Free Market." *CES Working Paper*, 2013: 529-534.

In neoliberalism, the government uses direct and indirect intervention in leading and controlling individuals without being held accountable for them. The withdrawal of the state's role makes individuals responsible for their needs, enabling them to regulate their behaviour. This also applies to producers and consumers who can act according to their needs. This kind of morality can then support the creation of cryptocurrency. The existence of communication and feedback between entrepreneurs and consumers encourages the development of cryptocurrency.²⁵ With that in mind, governments should recognize that cryptocurrencies were created as a reaction to neoliberal policies and fully seek to understand how states can build better outcomes for their citizens.²⁶

In recent years, financial markets have often been dominated by the talk of cryptocurrencies. Apart from stocks, bonds or bonds, deposits, futures contracts, precious metals, property and other assets, cryptocurrency is a new financial asset with an immense transaction value. Referring to data from Statista on November 10 2022, the value of cryptocurrency trading per day can reach five hundred billion United States Dollars (USD).²⁷ In terms of asset value, cryptocurrency also has a reasonably large valuation. As of November 2021, the cryptocurrency valuation reached 1.28 trillion USD, more significant than the silver metal market valuation, which reached 1.3 trillion USD.²⁸ One of the conclusions that can be drawn from this data is that cryptocurrencies have grown to become one of the most frequently used assets, both as investments and as assets for trading, even though cryptocurrencies have only appeared in the last two decades.

The phenomenon of the emergence of cryptocurrencies that have succeeded in shifting several conventional assets can be explained through an analysis of neoliberalism and free markets. Based on blockchain technology, cryptocurrency can be transacted pseudo anonymously. Apart from that, the use of blockchain has also led to the decentralized distribution of cryptocurrencies. The decentralized nature of cryptocurrency is an innovation in the circulation of means of exchange or money, where conventional money (e.g., Rupiah, Pound Sterling, US Dollars) is centralized and generally regulated by a central bank.

Cryptocurrency is also in line with the basic principles of neoliberalism. Neoliberalism upholds individual independence, with self-governance as the primary goal of this ideology. Dardot and Laval define neoliberalism as a way in which we can (conduct) what we want.²⁹ Meanwhile, neoliberalism often refers to market-oriented policy reforms, such as abolishing price controls, capital market deregulation, and reducing trade barriers, which are pursued by privatization and limiting the influence of the state on the economy.³⁰ Thus, economics based on neoliberalism theory believes that the state's presence will

²⁵Goksaran, Efe Can. *An Analysis of Neoliberal Sociality in The Particular Case of Bitcoin*. Ankara: Middle East Technical University, 2017.

²⁶Shashidhar, K.J., and Srinath Sridharan. *Fear and loathing od cryptocurrencies*. Maret 04, 2021. <https://www.orfonline.org/expert-speak/fear-loathing-cryptocurrencies/>.

²⁷Raynor, de Best. *Overall cryptocurrency 24 hour trade volume from July 1, 2020 to November 10, 2022*. November 10, 2022a. <https://www.statista.com/statistics/1272903/cryptocurrency-trade-volume/>.

²⁸Raynor, de Best. *Overall cryptocurrency market capitalization per week from July 2010 to November 2022*. November 14, 2022b. <https://www.statista.com/statistics/730876/cryptocurrency-maket-value/>.

²⁹Dardot, Pierre, and Christian Laval. *The New Way of the World: On Neoliberal Society*. London: Verso, 2013.

³⁰Boas, Taylor C, and Jordan Gans-Morse. "Neoliberalism: From New Liberal Philosophy to Anti-Liberal Slogan." *Studies in Comparative International Development*, 2009: 137-161.

negatively impact the economy, and the economy should be free to follow market desires.

The emergence of cryptocurrency as a contemporary embodiment of neoliberalism and free market principles introduces intricate contradictions and tensions within the economic sphere. While cryptocurrency embodies the ideals of neoliberalism, emphasizing minimal government intervention and individual autonomy, the realities of the crypto market often diverge from these principles, necessitating a nuanced assessment of their compatibility.

Neoliberalism advocates for the liberty of market participants to engage in transactions devoid of regulatory constraints, prioritizing self-regulation and individual accountability. However, the decentralized nature of cryptocurrencies, coupled with their pseudo-anonymous transactions, presents inherent vulnerabilities that challenge the notion of unrestricted market freedom. The absence of centralized authority and regulatory oversight exposes investors to risks such as fraud, manipulation, and market instability, prompting inquiries into the efficacy of market mechanisms in ensuring equitable and efficient outcomes.

The belief in the neoliberalism paradigm promotes the existence of free market conditions that allow for an economy without regulation, which ultimately aims to benefit consumers. The theory of neoliberalism argues that with a free market, economic growth will be achieved, poverty will decrease, the comparative advantage will occur, consumer choice will be maximized, and commodity prices will be more optimal.³¹ Therefore consumer freedom is one of the essential elements of a free market.

Likewise with neoliberalism, with the difference between cryptocurrency and conventional money, cryptocurrency has become a more democratic medium of exchange, where cryptocurrency can be transacted across countries, regardless of gender, nationality, ethnicity, and class. The transparent circulation of cryptocurrencies also provides privacy for its users. This makes cryptocurrency a medium of exchange that allows users to realize self-governance compared to other means of exchange. Price volatility or cryptocurrency valuations are also a reflection of the free market, where in general, the valuation of an asset can be regulated by an institution. Cryptocurrency valuations are actually not regulated and fully appreciated by the market without any regulatory restrictions like other assets or commodities, such as foreign exchange, which the central bank regulates, and the stock market, regulated by institutions in each of these countries.

Moreover, the democratizing capacity of cryptocurrencies, which surpasses geographical and socioeconomic constraints, aligns with neoliberal principles of consumer autonomy and empowerment. However, this democratization is tempered by apprehensions surrounding unequal access to technology and information, as well as the aggregation of wealth and influence among early adopters and significant investors in the cryptocurrency market. Consequently, while cryptocurrency presents fresh pathways for financial inclusivity, its ramifications on wealth distribution and societal fairness necessitate thorough scrutiny within the neoliberal paradigm.

However, in 2022 cryptocurrencies show various loopholes that prove that cryptocurrencies are not necessarily safe assets. The destruction of Luna, one of the cryptocurrencies that entered the Terra network, opened investors' eyes to that the deregulation of cryptocurrencies can be predatory for their

³¹Gertz, Geoffrey, and Homi Kharas. *Beyond neoliberalism: Insights from emerging markets*. Washington, D.C.: Brookings, 2019.

investors. Luna's destruction alone is estimated to have burned sixty billion USD.³² Luna's journey was initially auspicious, where Luna was initially valued below 1 USD in early 2021. Luna's cryptocurrency valuation skyrocketed by 135% in less than two months. However, in the end, Luna collapsed after a massive liquidation of two billion USD in TerraUSD, a stablecoin that entered the Terra network.³³ The liquidation had a domino effect, where investors sold Luna at a low price.

The selling pressure of LUNA eventually got too much, and the cryptocurrency ended up having no value. This collapse of LUNA exemplifies the inherent tensions between neoliberal principles and the realities of the crypto market. Despite initial optimism surrounding LUNA's valuation, the absence of regulation facilitated a massive liquidation that led to significant investor losses. This event underscores the risks posed by unchecked speculation and market manipulation, challenging the notion that market self-regulation can guarantee optimal outcomes for all participants.

b. The Crash of Luna Classic (LUNC) and South Korean Government's Role

Before changing its name to Luna Classic (LUNC), Luna had the symbol LUNA. Luna (LUNA) and TerraUSD (UST) are two native tokens that are on the Terra network, a blockchain-based project developed by Terra Labs in South Korea. The network is built on the Cosmos SDK, where developers can create custom blockchains and build their decentralized applications within the Terra network. Various projects have entered the Terra ecosystem, such as non-fungible tokens (NFT), decentralized finance (DeFi), and Web 3 applications. Some popular applications in the Terra network are Anchor Protocol, Chai, and Mirror Protocol. Do Kwon founded the network to create an easy trading platform with lower transaction fees. The fee charged is usually less than 1% and is given to the validator as a reward. Terra also provides loan, insurance, investment and fundraising services.³⁴

LUNA and UST are cryptocurrencies using an algorithmic stablecoin system, which maintains the value of stablecoins by increasing or decreasing their supply. With this system, developers create fully decentralized currencies without the role of the government. This algorithmic system will automatically mint stablecoin units or destroy units based on changes in supply and demand. If the stablecoin value is above the value it should be, then the system will print more tokens, so the price goes down. If the stablecoin value is lower than specified, the system will automatically remove the token from circulation, and the price will increase. In the case of LUNA and UST, 1 UST is defined as having a LUNA value of \$1. Thus, holders of 1 UST will always receive a value of \$1 in the amount of LUNA, which varies according to the value of \$1. This strategy seeks to keep the value of UST close to \$1.³⁵ This scheme is described in more detail in Table 1 below.

Table 1. Algorithmic Stablecoin Scheme on LUNA and UST

³²Forbes Digital Assets. *What Really Happened To LUNA Crypto?* September 20, 2022.

<https://www.forbes.com/sites/qai/2022/09/20/what-really-happened-to-luna-crypto/?sh=4cea11074ff1>.

³³Ibid

³⁴Sandor, Krisztian. *What Is LUNA and UST? A Guide to the Terra Ecosystem.* May 10, 2022.

<https://www.coindesk.com/learn/what-is-luna-and-ust-a-guide-to-the-terra-ecosystem/>.

³⁵Shen, Muyao. *How \$60 Billion in Terra Coins Went Up in Algorithmic Smoke.* May 21, 2022.

<https://www.bloomberg.com/graphics/2022-crypto-luna-terra-stablecoin-explainer/?leadSource=verify%20wall>.

Conditions	UST	LUNA	Impact
UST < \$1	Taken Out	Created	UST price comes up
UST > \$1	Created	Taken Out	UST price comes down

Source: Shen, 2022 (edited)

The scheme promoted by Terra Labs has succeeded in attracting the global community's attention and driving up the price of LUNA significantly. This can be seen from the movement of UST, which is at a stable value of around \$0.998 and \$1.006. This performance fuels the DeFi community's belief that the crypto community does not need a government role in ensuring the value of stablecoins.³⁶ With the high developer interest in UST, this automatically impacts the value of LUNA until it reaches a high of \$119.55. Figure 1 shows the price movement of LUNA/USDT within one year.



Figure 1. LUNA Price Before Crash

³⁶Sandor, Krisztian. *What Is LUNA and UST? A Guide to the Terra Ecosystem*. May 10, 2022. <https://www.coindesk.com/learn/what-is-luna-and-ust-a-guide-to-the-terra-ecosystem/>.

Source: *tradingview.com*

However, the LUNA crash occurred in May 2022. The price of LUNA at that time crashed and lost 99% in value to below \$0.0000001, as shown in Figure 2 below.



Figure 2. LUNA Price After Crash

Source: *tradingview.com*

The leading cause of the LUNA collapse is still unclear, especially since a decrease in UST demand initiated it. Although Terraform Labs has withdrawn \$150 million UST from circulation, an unidentified user is exchanging \$84 million UST. This phenomenon has a domino effect so that investors attract UST and cause massive transactions to drop the value of UST from \$ 1. Because one of the ways to issue UST is through LUNA, the value of LUNA also falls. The massive increase in the supply of LUNA and UST has destroyed their value, even impacting the overall market decline. To overcome this, Luna Foundation Guard (LFG) spent almost all Bitcoin (BTC) reserves to save UST values, but these steps could not save LUNA and UST values. The next step taken by Do Kwon is to maintain the Terra blockchain, create a new token, namely LUNA, and change the name Luna (LUNA) to Luna Classic (LUNC) and TerraUSD (UST) to TerraUSD Classic (USTC). However, until December 2023, the LUNC value continued declining, as shown in Figure 3.



Figure 3. LUNC Price After Changing Name from LUNA

Source: *tradingview.com*

The LUNC and USTC schemes show the principle of decentralization which was initially expected to become an independent stablecoin without the role of the government. The principle of neoliberalism can be seen in how market-oriented policy reforms and non-state actors can act freely. In this context, the state does not influence the economy and market activity.³⁷ However, the destruction of the Terra ecosystem also shows that the government will eventually play a role in cryptocurrency trading.

The South Korean government is trying to prevent a cryptocurrency market crash like in the Terra case. The Financial Services Commission's deputy chief, Kim So-young, revealed that the South Korean government would review regulations and strengthen cooperation with international organizations and other countries to set up an effective regulatory system for crypto assets. Financial supervisory authorities are needed to ensure the monitoring of the crypto market and to reflect on the Terra case.³⁸ South Korean financial regulators, the Financial Services Commission (FSC) and the Financial Supervisory Service (FFS), have also launched an emergency investigation to investigate the LUNA and UST crashes by requesting information from domestic cryptocurrency exchanges regarding the number of transactions and investors (Helms 2022). Meanwhile, South Korean prosecutors also froze the profits of three LUNA investors and four Terraform Labs employees who sold LUNA at a high profit with a value of up to \$93 million. The South Korean prosecutor also asked Interpol to issue a red notice to arrest Do Kwon, who was known to have moved to Singapore, Dubai, and then Serbia.³⁹

In analyzing the interventions undertaken by the South Korean government subsequent to the collapse of LUNA, it is imperative to assess their efficacy in remedying the underlying issues and averting analogous crises in the future. While the government's prompt actions, such as instigating

³⁷Dardot, Pierre, and Christian Laval. *The New Way of the World: On Neoliberal Society*. London: Verso, 2013.

³⁸Kolhapur, Nidhi. *South Korean Terra(LUNA) Holders Skyrocketed After Its Crash! Here's Why*. May 25, 2022.

<https://coinpedia.org/news/south-korean-terraluna-holders-skyrocketed-after-its-crash/>.

³⁹Thomas, David. *South Korean Prosecutors Still Chasing Terra Luna Funds, Freezing \$93M From*

Known Associates. December 20, 2022. <https://beincrypto.com/south-korean-prosecutors-freeze-93m-from-known-associates/>.

emergency investigations and asset freezes, exemplify a proactive stance towards addressing market instability, their sustained effectiveness remains uncertain.

One aspect meriting consideration is the regulatory measures' potential to mitigate systemic risks and safeguard investors from prospective market disruptions. Despite regulatory endeavors aimed at bolstering oversight and fostering collaboration with international entities, the inherent intricacies of the cryptocurrency market present formidable obstacles to effective regulation. The decentralized nature of cryptocurrencies and the globalized character of their transactions mandate a coordinated and adaptable regulatory framework capable of adapting to technological advancements and evolving market dynamics. The intervention of the South Korean government in dealing with the Terra destruction case shows the failure of neoliberalism which gives freedom to non-state actors to regulate the market.⁴⁰ This phenomenon follows Foucault's (2008) that the government needs to continue to play a role in the market and is different from Kotz's (2002), who states that government intervention tends to be viewed negatively because it creates many problems.

Moreover, the broader implications of governmental interventions extend beyond immediate crisis management to shape the trajectory of cryptocurrency regulation and governance. The strategy adopted by the South Korean government centered on advocating self-regulation, urging major cryptocurrency exchanges in the country to devise and adopt non-binding protocols for the inclusion and exclusion of digital tokens. This initiative was perceived as a move towards augmenting transparency and accountability within the sector, deemed imperative for forestalling future market upheavals. Evaluating the efficacy of this intervention in mitigating the immediate aftermath of the LUNA collapse proves challenging, given that the collapse had already transpired and the market was engulfed in turmoil. Nevertheless, the government's proactive measures in soliciting industry guidelines and fostering self-regulation can be construed as a favorable stride towards averting analogous crises in the future. This approach acknowledges the significance of industry-driven regulation and underscores the government's role in facilitating and steering the formulation of protocols aimed at safeguarding investors and upholding market stability.⁴¹

The involvement of the South Korean government signals a move towards heightened regulatory scrutiny and oversight in light of the risks inherent in decentralized financial systems. This trend signifies an increasing acknowledgment among policymakers of the imperative to strike a balance between fostering innovation and safeguarding investor interests within the ever-evolving realm of digital assets. The concept of decentralization in cryptocurrency itself goes far beyond the concepts of neoliberalism and the free market. Coates states that government intervention still needs to exist in the free market even though it is considered relatively minimal.⁴² Jessop supports this statement because government intervention can provide stability to the extent necessary. However, the involvement of the South Korean government only occurred when the Terra ecosystem was destroyed and harmed many parties globally.⁴³

⁴⁰Harvey, David. *A Brief History of Neoliberalism*. Oxford: Oxford University Press, 2005.

⁴¹Sangmi Cha *South Korea Eyes Guidelines for Crypto Bourses After Terra Crash*. June 8, 2022. <https://www.bloomberg.com/news/articles/2022-06-08/south-korea-eyes-guidelines-for-crypto-bourses-after-terra-crash>.

⁴²Coates, D. *Models of capitalism: Growth and stagnation in the modern era*. Cambridge: Polity Press, 2000.

⁴³Jessop, B. "Liberalism, neoliberalism, and urban governance: A state-theoretical perspective." *International Journal of Urban and Region Research*, 2002: 273-310.

However, it is crucial to recognize the potential unintended consequences of regulatory interventions, including stifling innovation and impeding market development. Striking the right balance between regulatory oversight and fostering innovation requires careful consideration of the diverse interests and stakeholders involved in the cryptocurrency ecosystem. Moreover, regulatory measures must be adaptive and forward-thinking to address emerging risks and challenges posed by rapid technological advancements and evolving market dynamics.

Conclusion

The cryptocurrency was born as a more private form of finance for the global community. Individuals can conduct peer-to-peer transactions without government intervention and supervision. Cryptocurrency is able to attract the attention of the global community and increase in popularity, which can be seen from increasing prices from year to year. One of them is LUNA, a token developed by Terra Labs in South Korea using an algorithmic stablecoin system with UST. LUNA once reached its heyday in April 2022 and experienced destruction in May 2022. After the destruction of Terra, the South Korean government acted and carried out investigations, including cooperative efforts with international organizations and other countries. The South Korean government's intervention in dealing with the collapse of LUNA shows that the principle of decentralization and peer-to-peer transactions in cryptocurrencies goes far beyond the concepts of neoliberalism and free markets.

Moreover, the demise of LUNA and subsequent governmental intervention raise broader inquiries into the influence of neoliberalism and free market principles on shaping the cryptocurrency landscape. While decentralization and peer-to-peer transactions constitute core principles of cryptocurrency ideology, the collapse of LUNA underscores the limitations of relying exclusively on market mechanisms to guarantee stability and security. In this context, the government's intervention signifies an acknowledgment of the necessity for regulatory oversight to forestall market exploitation and uphold market integrity.

Looking ahead, future research should explore the implications of government intervention in cryptocurrency markets for policy formulation, regulation, and market dynamics. By examining the impact of regulatory measures on innovation, market development, and investor confidence, policymakers can craft regulatory frameworks that foster a vibrant and resilient cryptocurrency ecosystem. Additionally, further exploration into the mechanisms of market collapse and the effectiveness of regulatory responses will enrich our comprehension of the evolving interplay between governmental intervention and decentralized finance.

The collapse of LUNA serves as a reminder of the challenges and complexities inherent in the cryptocurrency market. Through proactive regulatory intervention and collaborative efforts, policymakers can mitigate risks, protect investors, and ensure the long-term sustainability of the cryptocurrency ecosystem.

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