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This Time is Different: Facebook's Libra Can Improve Both Financial Inclusion and Global Financial Stability As a Viable Alternative Currency to the U.S. Dollar

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Abstract

The propagation of high-magnitude crises since the late 1990s have cost over $30 trillion and pushed about one percent of the world population into poverty. In the aftermath of the 2008 global financial crisis, the worst financial catastrophe of the 21st century, accelerated the speed of money's inevitable evolution into cryptocurrencies. Blockchain and distributed ledgers are a revolutionary innovation; as antecedents, they could lead to foreseeable and unforeseeable impacts on the definition of central bank money and online payment systems. As with any new technology, Facebook's Libra as the new kid on the block (but without block) is going to disrupt the existing cryptocurrency models and the ecosystem they have created for a decade. Libra clearly has an advantage over 2,400 cryptocurrencies sprouted since the first successful Bitcoin in January 2009; furthermore, Libra's vast scale (close to a three billion user base) sets itself apart from even the most dominant Bitcoin with 68% of the market share. Bitcoin's arduous journey to the stardom in the digital cash world has been constantly subject to immense criticism and the question whether Bitcoin is a digital coin or just an investment asset class has never been put to rest. Facebook assures that at least Libra is not going to have the same predicament as Bitcoin since Libra will be backed by a basket of stable currencies (dollar, euro, pound, and yen) as well as low-risk government bonds and central bank reserve assets; of course, this alone does not shield Libra from market fluctuations and exchange rate risks. Although Libra is promoted to be a very stable digital coin contrary to peers (i.e. Bitcoin), but Libra or its 28-member governing body the Libra Association will not eliminate all of cyberattacks or the default risk of securities and member-firms which happen to be for-profit companies. Libra's another stability feature, unlike Bitcoin and over 2,400 altcoins, Libra will be a liability of individuals and entities plus it will be backed by a central bank like authority (the Libra Association) responsible for Libra's stability. The downside is that Facebook has had a troubled past regarding privacy and the exploitation of users' data; however Facebook assures that Libra will be operated by Facebook's subsidiary Calibra and sensitive financial data including the Libra account holders' any part of transaction history will not be shared with Facebook unless authorized by the account owners.

Keywords: Libra; Facebook; Cryptocurrency; Bitcoin; Blockchain; Digital Coin; Dollar Hegemony

JEL Classification: G12, G21, G32, E42, E44, E51

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