Another Silicon Valley Monster: Facebook Wants To Coin World Money

by Paul Gallagher

June 19—Facebook on June 18 announced a plan to try to form a kind of private global central bank issuing a global private currency, the "Libra," leveraging both its huge advertising business ($60 billion annual revenue from 90 million businesses) and Wall Street bank "partners." Through this plan, if successful, Silicon Valley's giant tech conglomerates would team with Wall Street and London banks to try to replace national currencies, to a greater or lesser degree, with a currency whose value they could control. These tech conglomerates are already effectively running surveillance operations on citizens of many countries, and now are moving to try to control speech and content on the Internet.

That the Facebook money scheme is a direct attack on the sovereignty of nations—including that of the United States—is so clear that some members of Congressional committees dealing with finance immediately demanded that Facebook suspend the plan indefinitely. U.S. regulators have previously shut down small attempts to create private digital currencies which are supposedly "pegged to" the dollar or other national currencies. But the projected Facebook combine would be a far more powerful monetary adversary. The U.S. Constitution is clear in Article I that only the Federal government—specifically, Congress—has or can delegate the authority to create coin or paper currency and regulate its value. A global currency created by private banks and companies could at least create chaos in valuation of the dollar, if not partially drive it out of circulation.

As we will see, the Libra would also directly disadvantage those who use it, like those wildcat "gold-backed" currencies issued by hundreds of state banks in America in the 1836-1860 period of bank panics and recessions, when a sovereign national U.S. currency also ceased to exist. This time the monetary chaos could be on a global scale.

The Libra is a much more serious disruptive prospect than Bitcoin, Ethereum, and the rest put together. It is planned as a digital currency, but not a "crypto" currency, as there will be nothing secret or limited about it and its value is supposed to be "based on" a basket of major currencies and investment assets. In effect, it is a project to form a huge private investment bank or money-market fund—to be called Calibra—which will issue its own money worldwide and manage the value of it, like a central bank.

All of Facebook's "partners" in this scheme are not clear yet, but one is VISA, the globally dominant (outside China) credit card issuer backed by Bank of America; others are venture capital firms such as Union Square Capital; others are PayPal, Uber, Lyft, etc. Regarding Wall Street, David Marcus, Facebook's developer of the Libra currency, told CNBC on June 26, "We have had conversations with banks. We still have conversations with banks. And my expectation is that by the time this thing launches next year you will have banks that are going to be members of this."

Sovereign vs. Private Currency

There are basic principles of sovereign currencies of nations. The nation does not charge fees for the use of its currency, and makes sure that it is usable for all payments, purchases and investments. The banks through which the currency is distributed, offer interest to savers who leave the currency in the bank. And those institutions and people who use the currency, also use it to buy debt (bonds) of the issuing national government, providing the basis for issuance of credit by that government.

None of these will be true of Facebook's planned Libra.

The consortium plans to charge user fees to the 90 million companies who advertise on its platform and/or provide apps to 2.7 billion users, for taking payment in Libras to sell directly through the platform. It claims that it will not charge the consumers for payments, but may charge them for converting between Libra and real national currencies.

Second, those supposed millions who leave their national currencies with the Facebook consortium in exchange for Libra to spend, will provide interest income to the investors in the consortium, while earning none themselves. The Libra Association, created to manage the currency, says so directly. The "partners" will buy and provide an initial reserve of, say, dollars, euros, government bonds, etc. for the Libra.

But the cash of those who buy Libra will become part of the reserve, which will be "invested in low-risk assets that will yield interest over time. The revenue from this interest will first go to support the operating expenses of the association—to fund investments in the growth and development of the ecosystem, grants to nonprofit and multilateral organizations, engineering research, etc. Once that is covered, part of the remaining returns will go to pay dividends to early investors in the Libra Investment Token for their initial contributions."

So interest will go to the partners; none will be available to those who buy Libra, use them and keep them. This is like a PayPal account; it is not like saving money in a national currency in a bank. And Facebook may be selling their transaction data for additional profit.

And the issuer of Libra, which the announcement says will be a company called Calibra, will of course issue no credit as governments do, and undertake no public works or services.

Manipulating Libra's Value—Down

Users will lose money if the value of Libra declines, as is likely, relative to a basket of national currencies, while they leave their money in their "digital wallet." As a June 27 analysis by Rabobank stated, "If the Libra reaches larges volumes [of use—ed.], the demand for high-quality, liquid and short-term assets to cover it can lead to upward pressure on the price of such assets"—and therefore a corresponding *fall* in the value of the Libra itself while the user is keeping Libra in a digital "wallet." Not only will there be "upward pressure" on the prices of the basket of currencies which the so-called Calibra Company is holding as reserves; the Libra Association says Calibra may manage the values, so manipulating the Libra value downward will not be difficult for it. Thus a currency which—even conversion fees aside—costs money to use.

The Libra Association says it will target, especially, people who don't currently have bank accounts, to use the Libra. They are particularly numerous in developing countries with weaker national currencies. There, the Libra could drive national currencies largely out of circulation, or into use only for saving. It might initially appear to be "pegged to the dollar"—or the dollar and euro—but could cause major disruption in the value of those major currencies as well, and their use in trade.

Since the 2007-08 global financial crash, the biggest central banks have revived their dream from the 1930s: To get fingertip control of the amount of currency in circulation, not allowing banks to increase it by lending or paying interest, nor governments by new issues. They could then, their theory goes, absolutely control inflation and deflation, ignoring the factor of economic productivity. They have intensively studied digital currencies for that purpose, and the added purpose of automatic tax collection. The "currency boards" imposed on the British and other European colonies did the job—no more currency allowed in circulation, than the holdings of gold. The Rabobank analysis notes, "The Libra is managed as a currency board, in which the money-supply of a country moves one-on-one with the size of the foreign currency reserves."

Facebook's currency is projected for launch in January 2020. A June 18 letter from Patrick McHenry (Ranking Member) to Maxine Waters (Chair) of the House Financial Services Committee, asked for a committee investigation. In his letter, McHenry said:

> Unlike existing digital currencies, Facebook has a worldwide platform and scale that can impact global payments and the digital currency market.... We need to go beyond the rumors and speculations and provide a forum to assess this project and its potential unprecedented impact on the global financial system.

Waters issued a statement: "Given the company's troubled past, I am requesting that Facebook agree to a moratorium on any movement forward on developing a cryptocurrency until Congress and regulators have the opportunity to examine these issues and take action."

A statement by Sen. Sherrod Brown, the Ranking Member of the Senate Banking Committee, said: "We cannot allow Facebook to run a risky new cryptocurrency out of a Swiss bank account without oversight."