



LIBRA: Facebook's Currency

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This article is based on the editorial **"Why policymakers worldwide should fear the launch of Libra"** which appeared in Live mint newspaper on 1 July 2019. It talks about the issues pertaining to roll out of Facebook's cryptocurrency: LIBRA

Facebook on June 18 announced that it will launch a global cryptocurrency called LIBRA in 2020, alongside the underlying blockchain-based network — a secure, transparent and decentralized digital lender — that will support it.

In the first quarter of 2019, Facebook had 2.38 billion monthly active users. If even a fraction of them begin to use Libra to carry out financial transactions, buy and sell products, and transfer money, the new currency would quickly gain wide acceptance. This could dramatically change global monetary policymaking, but the policymakers all around the world are quite apprehensive about the role of LIBRA

What is LIBRA currency?



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- Libra is the **cryptocurrency** to be launched by Facebook.
 - Libra framework comprises of the Libra Blockchain, the Libra currency and Calibra(which is a cryptocurrency wallet that lets users send and receive Libra coins)
 - Calibra is built and maintained by Facebook, and it will be integrated into WhatsApp and Messenger to be managed by the Libra Association.
 - The Libra Association, a Geneva-based not-for-profit group that will operate the digital currency, counts companies such as Uber, eBay, Lyft, Mastercard and PayPal among its founding members.

- Libra project promises to address many of the fundamental barriers that have stopped the widespread adoption of Bitcoin and other cryptocurrencies.
 - Libra is designed to hold a stable value. Libra is backed by a financial reserve that mixes the world's major stable currencies. This stability promises to make Libra a stable currency for consumers rather than an attractive gamble for investors like Bitcoin.
 - Bitcoin and its competitors have market-driven valuations, meaning that the price of a Bitcoin is determined solely by market demand for Bitcoin. This creates a market fueled by speculation and subjects it to enormous volatility
- Libra comes with a new programming language called Move

The move is a new language, meaning developers will have to adapt to a new programming environment. Facebook says it's designed with "safety and security" as the highest priorities.

What are the issues emerging out of Libra cryptocurrency?

- Libra, with given active users of Facebook in the world, could become a dominant global currency—but one run by a corporation, not a central bank.
 - Since Libra is not controlled by any central bank, the monetary policymakers may find it much harder to control issues like unemployment and inflation(as when inflation rises, the central banks take action to control it) in a world dominated by global currency like Libra.
 - That's why French Finance Minister held that Facebook's digital money can never be a sovereign currency.
- Mostly all the modes of exchange of money like barter trade, banking, paper money, financial markets etc.—emerged through slow and evolutionary processes. Deliberate attempts to establish entirely new systems have usually given rise to unanticipated challenges. for example bitcoins.
- If Libra becomes popular, people will exchange their national currencies—dollars, euros, renminbi and rupees—for the new digital coin in order to buy and sell the many products that will be priced in it. Many users may then choose to keep Libra instead of exchanging it back for their own currencies.
- Facebook or the Libra Association will, therefore, continue to hold their national money and earn income on it by investing Libra users' money. In this case Facebook will also be tempted to issue extra Libra.
- Facebook through Calibra plays a facilitation role in the management of currency, this allows Facebook to penetrate that veil of privacy. While Facebook promises that they won't access information from the currency's digital wallets without customer's consent but there are no technical barriers to stop any such attempt

Further, the past record of Facebook is poor when it comes to protecting the privacy of individuals: For instance, Cambridge Analytica case

Cambridge Analytica case

The Facebook-Cambridge Analytica data scandal was a major political scandal in early 2018 when it was revealed that Cambridge Analytica had harvested the personal data of millions of people's Facebook profiles without their consent and used it for political advertising purposes.

- Libra will increase US influence in many parts of the world and it may give rise to a scenario where companies like Tencent/WeChat issue their cryptocurrency, triggering a battle in the crypto-space arena.
- Cryptocurrency is a policy-trailing technology(Laws cannot keep pace with the fast changing technology). So it's regulation is not a cake walk.

But in spite of all these issues, in a globalized world, a country that rejects Libra can find itself gradually isolated by others who take on. Therefore policymakers must immediately consider what type of world-specific digital money can be created. For that, there is a need for new laws and global treaties to mitigate potential negative fallout and limit the power of the organizations that run these new currencies.

In this scenario, the world's central bankers have begun to discuss the idea of central bank digital currencies (CBDCs), and now even the International Monetary Fund is talking openly about the pros and cons of the idea which is a step in the right direction.

Drishti input

Highlight the issues related to cryptocurrencies like LIBRA and also examine how will it be different from other cryptocurrencies like Bitcoin.