



If Facebook doesn't launch Libra, someone else should

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October 23, 2019

Politicians have welcomed news of a regulatory crackdown on Libra, the global currency and payments initiative incubated at Facebook. Much of Capitol Hill's distrust for the initiative was on display Wednesday morning, as Facebook CEO Mark Zuckerberg testified before the House Financial Services Committee.

Elected representatives may distrust Facebook because of its past conduct. They may even harbor concerns about Big Tech firms with copious amounts of customer data becoming involved in financial services. But if Libra never comes to pass, a similar initiative will urgently need to take its place in order to increase global financial inclusion. Without easy access to payments and credit, those living in low- and middle-income countries will struggle to build the businesses and human capital required to match the standard of living of wealthy countries.

The Libra Association was proposed in June as a network with its own currency that could be used for payments and other transactions. Members of the Libra Association, which included Facebook and 27 corporate partners, would ensure that each unit of Libra was backed by financial assets denominated in a mix of stable national currencies, such as the US dollar and the euro. This would help keep Libra's value from fluctuating wildly, unlike other digital currencies like Bitcoin. The members would also validate transactions and offer Libra-based products, such as digital wallets.

But Facebook's leading role in the initiative immediately earned Libra political blowback due to the firm's huge size, its past use of customer data and its recent involvement in controversial votes such as the 2016 US presidential election. Rep. Maxine Waters, Chairwoman of the House Financial Services Committee, called on Facebook to place a "moratorium" on the project. Senator Sherrod Brown, the Senate Banking Committee's leading Democrat, dismissed Libra as "a risky new cryptocurrency [run] out of a Swiss bank account." Brown and Hawaii Senator Brian Schatz earlier this month sent strongly-worded letters to Libra Association partners Stripe, Visa, and Mastercard which a few days later announced their decision withdraw from the project.

The great paradox of the public response to Libra is that what many regard as a threat is also the project's greatest promise. Facebook's enormous network of 2.4 billion active users, supplemented by the hundreds of millions of customers from Libra's partners boast. The larger a payment network's size, the more attractive it becomes to other potential users. That, of course, is also true of currency. Libra will rely on its large established user network to compensate for the fact that the value of each Libra unit will fluctuate relative to those of the national currencies people use daily.

The Libra Association seeks to ensure trust in the network by backing every unit of Libra with relatively safe assets such as bank deposits and government bonds from stable countries. The interest income from Libra's bond holdings of sovereign bonds will subsidize payments on the Libra network, which Libra's backers hope will further encourage adoption.

The costliest payments today are international: immigrant remittances to developing countries, monetary transfers from politically unstable and high-inflation economies to more stable markets and payments for goods purchased abroad. Furthermore, while the US dollar is the global reserve currency today, it may not be in the future. Creating a basket of currencies is one way to make a payments network like Libra internationally attractive and able to remain useful in the future should the US dollar decline.

For advocates of greater financial inclusion, Libra has the added advantage of linking payments directly to mobile technology. Globally, the World Bank estimates two-thirds of unbanked adults own a cell phone. Existing mobile payments services are of little use to the unbanked, since they require a bank account or debit card. Mobile money accounts, such as the digital wallets that would run on the Libra network, on the other hand, could do much to ease access to basic financial services by the financially excluded.

As the World Bank documented in its most recent Findex Database report, which tracks account ownership trends around the world, mobile money accounts have led the way in the expansion of access to financial services across Africa and parts of Asia and Latin America. Between 2014 and 2017 alone, countries like Burkina-Faso, Senegal and Zimbabwe managed to double and triple their rates of financial inclusion -- thanks in large part to mobile accounts. A currency such as Libra, separate from government and managed independently, could help hundreds of millions of global unbanked achieve not just convenience, but financial security, too.

Rich countries could also benefit from Libra. Despite America's status as a financial services leader, its unbanked problem has only partly subsided in recent years, going from 7.7% of households in 2009 to 6.5% in 2017. Post-2008 regulations that were put in place following the financial crisis have led to substantially increased account maintenance fees, making it more expensive for low-income Americans to hold bank accounts. Laws seeking to curb money-laundering have driven banks to eschew business with certain customers. The high fees that low-income immigrants currently pay to send money abroad are another reason to welcome an innovation such as Libra to promote financial inclusion.

Progressive politicians such as Waters and Brown claim to have made financial inclusion a priority. Yet, so long as Congress isn't ready to consider major changes to current banking legislation and the regulatory burdens it poses, non-bank payments innovations like Libra remain one of the few lifelines for the financially excluded. Policymakers, even those keen to scare Facebook away from payments provision, should reflect on the consequences that their risk aversion will have for the most vulnerable Americans.

If Libra ends up not coming into existence, we will still need something like it.

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