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Whatever Happened to Facebook's Audacious Crypto Plans?

By James P. Freeman

Last summer, as Americans were preparing for beach and barbeque -- when the world seemed more or less normal -- Facebook was preparing for a kind of disruption and dominion of its own doing. The social media giant intended to remake a marketplace that few Americans had little understanding of: cryptocurrencies. As the last year has proven, Facebook too had little understanding of the murky commerce of cyber finance. It has scaled back its ambitions.

What exactly happened?

On June 18, 2019, with great fanfare, the company launched "Libra," its own cryptocurrency, (or digital currency) along with "Calibra," its own digital wallet. Even then, Facebook executives were engaged in a global campaign to pitch the idea to its vast customer base and to convince financial regulators of Libra's merits and legitimacy. Facebook hoped to have the operation running sometime this year.

But make no mistake about it. This announcement wasn't the latest toe-tipping entry into the tepid waters of cryptocurrency *transmission* -- a space that is still largely unregulated, intentionally decentralized, and mostly misunderstood. On the contrary. This was a plunge into the deepest end of cyber money *creation* -- a massive transformation of fiat currency, the traditional province of sovereign entities.

Indeed, according to the official site libra.org, Facebook's audacious goal was to: "Reinvent Money. Transform the global economy. So people everywhere can live better lives." Furthermore, the stated mission was to create a "simple global currency" and "financial infrastructure" that "empowers" billions of people. Well.

COVID-19 did not kill crypto-2020 for Facebook. Common sense did.

Still, it is instructive for some perspective on the larger crypto craze.

Conceptually, digital currency or digital cash probably began in the late 1980s. But it wasn't until October 31, 2008 -- amid the global financial meltdown and The Great Recession -- that a white paper written by a still-unknown author (or authors), under the pseudonym Satoshi Nakamoto, gave the world cryptocurrency's intellectual underpinning. (Forget for a moment that it lacked -- and still does -- sensible financial underpinning.)

Nonetheless, "Bitcoin: A Peer-to-Peer Electronic Cash System" envisioned: "A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution." Internet technologies and other decentralizing innovations would act as the critical infrastructure for bitcoin and its dueling digital crypto cousins.

Nakamoto envisioned an "electronic payment system based on cryptographic proof instead of trust."

In early 2009, the first bitcoin software was released, employing what is called "blockchain technology." This allows digital information to be distributed but not copied. Through a web of computers these transactions ("broadcasts") are ultimately validated and verified and then placed on a cloud ledger. Once verified, a given transaction is combined with other transactions to create a new block of data for the ledger. New blocks are added to the existing blocks in a way that is purportedly permanent and unalterable. All anonymously. And, supposedly, all securely. (In 2016, hackers stole bitcoins worth $65 million after attacking a major digital currency exchange).

But, suddenly, currencies were created out of these technical applications and protocols -- really, mathematical formulas masquerading as currencies with no intrinsic value and no physical form. Futuristic global money was simply bits and bytes with dollar signs. But clever marketing discouraged such reasoning.

No wonder, then, bitcoin.com pushed the idea that bitcoin should be considered the "people's money" borne out of a "complex monetary system," based on "valid consent." It relied upon the "consensus of math" and presented a "stark contrast to the untrustworthy banking system we know of today." Hence, cryptocurrency's premise.

With molten irony, some called cryptocurrency the "next-gen gold." Abstractly, that made sense. Bitcoins are virtually mined (in a computing resource-intensive process; nearly 10 U.S. households can be powered for one day by the electricity consumed for a single bitcoin transaction). Mining bitcoin is difficult and intentional, using hard drives, not hardhats. Only 21 million bitcoins can be mined. Approximately 80 percent are already in "circulation." It is expected that the last coin will be mined in 2140.

Interestingly, there is not universal consensus as to whether bitcoin is a currency or an asset. Given its unique characteristics, some argue a cryptocurrency, like bitcoin, could one day replace the U.S. dollar as the world's de facto reserve currency. (Stablecoins may bridge this gap; they are cryptocurrencies which are pegged to a stable asset like gold or a fiat currency like the dollar.)

So, what could possibly go wrong with a new all-digital highly unregulated decentralized speculative global currency, where one must be conversant in mempools and satoshis?

Nevertheless, many believe bitcoin and other cryptocurrencies are here to stay.

Two years ago, Fidelity Investments entered the marketplace with Fidelity Digit Assets, a group dedicated to servicing the burgeoning crypto industry. And last year JPMorgan Chase launched JPM Coin to facilitate it massive global settlement business. Other well-known Wall Street firms and financial intermediaries have given entry serious consideration. Now, a big non-financial company, Facebook, has entered the market.

Bitcoin is the most popular cryptocurrency and rose to prominence in the public psyche in December 2017 when it reached stratospheric heights by trading over $20,000 per coin, up from $65.53 in 2013 and just six cents when it began trading in 2010. Today, daily trading in bitcoin features wild pricing fluctuations, sometimes gyrating by over 10 percent over a trading session. It now hoovers at roughly $9,500. And given its performance in the turbulence of 2020, this crypto has not acted as a traditional safe harbor, like gold, but rather like a newly issued stock.

Perhaps most troublesome about cryptocurrencies is a dearth of consistently reliable information. Bitwise Asset Management, in a comprehensive study released last year, found widespread discrepancies in what was commonly perceived to be accurate and factual information on the crypto market. It concluded that 95 percent of trading in bitcoin "is fake or non-economic in nature." Furthermore, it determined that only 10 of the 81 top exchanges bitcoin then traded on had actual volume.

Much else about the market is suspect-- such as its total market capitalization; who is conducting the trading and where trading is being conducted. CoinMarketCap is one of the 500 most popular websites in the world. It now lists nearly 5,800 cryptocurrencies on its website (up from 1,400 identified in December 2017). But a substantial number of them are presumed to be the financial equivalent of Fake News.

The cryptocurrency phenomenon has always presented new challenges for government and regulatory authorities. Because of its latent anonymity, cryptocurrencies are a new means to facilitate illicit activities (drugs, ransomware, money laundering). Additionally, there are tax implications. The Internal Revenue Service deems cryptocurrency as property, not currency. More so, the U.S. Treasury defines bitcoin as a money services business, not a currency. For this reason, bitcoin is placed under the Bank Secrecy Act, requiring all sorts of regulatory adherence. Finally, the Federal Reserve does not recognize any cryptocurrency as legal tender.

Against this backdrop Facebook desired to conduct crypto business on a massive scale.

Some have surmised that Libra would be more popular -- hence, more influential -- than bitcoin simply because Libra is spearheaded by Facebook, which has a global portfolio of 2.7 billion customers. But Facebook had bigger plans for Libra. Much bigger.

A driving imperative for Libra was always social justice. Facebook's marketing blitz emphasized that 1.7 billion people continue to be "unbanked" and that one billion women, it estimated, remain "outside the formal financial system." Facebook sought to correct these deficiencies. And fundamentally, at its core, Facebook sought to mainstream the adoption of cryptocurrencies on a platform that would be effectively controlled by Facebook (despite assertions that oversight would be handled by The Libra Association, an independent, not-for-profit global consortium).

Despite its altruistic intentions, Facebook never overcame three big hurdles before Libra could go live.

The first was practical: financial regulators and global central bankers never got comfortable; in a kind of chorus of coordination, they voiced strong opposition. One of them was Federal Reserve Chair Jerome Powell. He said Libra "cannot go further" until "serious concerns" (like the ones written about herewith) were addressed.

The second was technical: because Libra was originally presented as a stablecoin, it was to be backed by lots of international deposits and short-term government securities. No one really understood how this would have worked. Some raised concerns that Libra would have effectively drained the reserves of stable currencies like the dollar, thereby creating what would be known as a "liquidity crisis." That was just one of many technical challenges.

Finally, the third hurdle was existential: Facebook touted the security of Libra, yet the company had been dogged by credible privacy concerns for over a decade. Increasingly, Americans view tech companies with more and more disdain.

It is unclear if Facebook fully appreciated this last hurdle in particular. And as Facebook continues to be embroiled in political and free-speech matters -- as many big-corporate entities are pulling back on advertising on the Facebook platform -- it would appear that the company has problems managing a core business, let alone a potential new one, like a new kind of financial system. (For which it has zero competency.)

Perhaps in recognition of more questions about Libra than answers, the company announced this past April that it was scaling back its grandiose plans. In fact, the Libra Association admitted as much. As The New York Times wrote, the pullback was "a response to a global outpouring of opposition to the cryptocurrency." Facebook's crypto still remains uncertain.

Rather satirically, Libra is a curious choice for Facebook's cryptocurrency. Derived from Latin, it means "a balance." An even older derivation conveys a sense of cosmic order and balance, as personified by the Egyptian deity "Ma'at." Libra is also the seventh sign in the zodiac, depicted by a pair of scales held by the Greek goddess of divine law and order. No matter the future of Libra, its entry into the crypto world has wrought confusion and chaos.

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