

Facebook's Libra and the International Politics of Financial Infrastructures

Written by Nick Bernards and Malcolm Campbell-Verduyn

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<https://www.e-ir.info/2019/07/05/facebook-s-libra-and-the-international-politics-of-financial-infrastructures/>

NICK BERNARDS AND MALCOLM CAMPBELL-VERDUYN, JUL 5 2019

Towards the end of 2018, its *annus horribilis*, Facebook quietly announced it planned to investigate the development of a digital currency facilitating money transfer between its 2.5 billion users. Following in the footsteps of other tech firms and financial services firms the world over, Facebook focused on whether the peer-to-peer blockchain technology underlying so-called 'cryptocurrencies' could underpin a 'stablecoin' whose value would be linked to state-backed currencies like the US dollar and which would avoid the exchange rate fluctuations plaguing Bitcoin. Less than a half year later, in June of 2019, a consortium of more than two dozen tech firms, telecoms, NGOs, payments providers and venture capitalists led by Facebook published a white paper announcing their collective intention to develop 'Libra'. This new "cryptocurrency", coupled with a "blockchain" based payment and contract system to be developed by the Switzerland-based Libra Association promises to 'deliver a giant leap forward toward a lower-cost, more accessible, and more connected global financial system' (Libra 2019a: 2).

Shifting beyond the immediate hype surrounding the announcement of this project, we can recall how the goal of transforming infrastructures underpinning global finance is far from new. The Bitcoin white paper promised to do much of the same albeit in more technical terms. Numerous cryptocurrency copycats, an array of 'fintech' firms and even the banks and central banks at the heart of the global financial crisis have advanced similar promises over the past decade. Yet given the size and dominance of Facebook and its partners in an array of existing infrastructures, from e-commerce (eBay) to telecommunications (Vodafone), Libra's announcement provoked immediate and widespread concerns about the changing contours of international power, governance and authority.

In this short commentary we echo the wider scepticism voiced in media and regulatory responses to the Libra announcement, questioning its intentions to deliver material benefits to anyone beyond owners and shareholders of the 27 firms forming the Libra Association. Yet in scrutinizing the possibilities and limits of these proposed market-led changes to global finance we ground our analysis in the concept of 'infrastructures' as elaborated in research investigating technological change undertaken with our colleagues in a forthcoming special issue of the *Review of International Political Economy*.

What Are Infrastructures?

The Libra white paper foregrounds what most of us tend to background and not consider on an everyday basis: payment systems. Although we scarcely go a day without needing to pay someone, for something, in one way or another, rarely do we give much thought to the complex assembly of physical objects (e.g. plastic cards, point of sale terminals, computers, fibre-optic cables) and human practices (e.g. communications protocols, ways of calculating and recording payments, of calculating exchange rates for different currencies, regulations) that must all come together in making possible a simple act like tapping or swiping a card to pay for groceries. It is the assembling of these important, but easy to ignore, socio-technical systems that underline what we mean with 'infrastructures' in global finance. Infrastructures are objects and practices assembled together in manners that are neither entirely static, nor entirely re-created at any given point in time. Their key characteristics shape the impacts that any one technological advancement are intended to have, such Libra's stated 'mission to enable a simple global currency and financial infrastructure that empowers billions of people' (Libra 2019a: 1).

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1) Infrastructures don't do anything, per se. Rather, they make other activities possible. In this sense they *facilitate* other activities, often in unintended manners. Libra, in short, doesn't create value or send money across borders; rather it enables its users to do so, and in this sense promises to facilitate transnational social relations. Although, as immediate concerns about Libra's vulnerability to money laundering suggest, such facilitation is not always undertaken in ways that are beneficial to everyone, or as likely to be intended even by powerful actors like Facebook and its partners.

2) Infrastructures facilitate in large part through the routinization and standardization of core processes. They 'do not have to be reinvented each time or assembled for each task' (Star, 1999: 381). Infrastructures are, as a result, *open* to use by a greater or lesser range of actors, not just the people immediately responsible for 'assembling' them. We flesh out this characteristic in regards to Libra more below.

3) Infrastructures thus persist over time, constituting an 'installed base' (Star 1999, p. 381) into which new technologies and attendant practices need to be integrated. In this sense infrastructures are *durable*, impacting the extent to which a project like Libra can really claim to be producing a 'new' financial infrastructure. Simply put, Facebook and its partners need to work with and through what is already there. Callibra, the new subsidiary of Facebook is charged with developing the digital wallet for holding and trading Libra, will need to work with and through existing payment and regulatory infrastructures. In recognition of this, Facebook is partnering not only with Visa, MasterCard, and PayPal but also with Coinbase, one of the largest cryptocurrency exchanges per daily volume.

4) Infrastructures shape the way core functions are undertaken, such as value exchange across borders in the case of Libra. Their *centrality* has political and power implications, which we discuss further below.

5) Infrastructures operate largely in the background, and can often be 'black-boxed' by users. Infrastructures are thus *obscure*. The taken for granted character of payment systems often leads us to avoid thinking about the socio-technical enabling basic functions.

The lens of 'infrastructures' provides useful means of critically examining some of the more grandiose claims made about Libra by its promoters. As we show next, Libra is unlikely to remake the global financial system. Yet the attempt to do so illustrates some broader questions about the politics and power relations of new technologies in global finance and its governance.

Interrogating Materials, Space and Power in the Development and Impacts of Libra

Foregrounding 'infrastructures' is useful for students of IR to understand the on-going development and impacts of new financial technologies like Libra. In introducing our special issue we suggest a number of research questions for investigating the changing infrastructures of global finance through infrastructures. Here we highlight how doing so is especially pertinent to confronting what we consider to be key issues of materiality, space and power.

First, thinking in terms of infrastructures invites students and scholars of IR to critically consider the *kinds* of ideas, practices, and physical objects being bundled together. What are financial infrastructures made of exactly? Asking this question invites important considerations of how particular ideas or social relations are made durable in the process of technological change. For instance, to make a simultaneously 'global' and 'stable' currency, Facebook and its partners plan to back Libra with a reserve fund of 'real' assets (Libra 2019a) to be managed, supposedly, by 'a competitive group of liquidity providers that interface with the reserve, users can have confidence that any coin they hold can be sold for at currency at a narrow spread above or below the value of the underlying assets' (2019b: 23). A particular understanding of money and a diagnosis of financial instability underlies this imagined system, one in which the value of money is rendered stable by linking it to a pile of underlying assets. This is a common-sense view of money which has been widely debated. Yet there are challenges involved in actually embedding this belief in a functional payment system. Notably, this requires the ability to easily and continuously buy and sell the different national currencies and treasury assets making up the 'reserve' fund. In being able to continually buy and sell a basket of currencies and treasury assets, potentially in very large volumes however Libra remains tethered to the existing infrastructures of global finance. Interfacing with the key objects and practices of the existing system not only

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casts doubt on claims that Libra represents a 'new financial infrastructure', but worries about the potential to re-create the kinds of 'fault lines' that Malcolm Campbell-Verduyn, Marcel Goguen and Tony Porter argue can lead otherwise minor tensions and shocks to have wider systemic impacts. For instance, if its users begin to store their money in Libra in sufficient volume, Facebook and its partners might find themselves unable to maintain its policy of matching coins to 'real' assets. They could be faced with a classic 'run' on their reserves should users begin to question Libra's ability to pay out on demand. In recognition of this and other potential problems, such as money laundering and terrorism financing, financial regulators have already voiced concerns about the impacts of Libra on global systemic stability. We pick up on this point below; for now though the point is that thinking in terms of infrastructures can help to consider how novel technological solutions often introduce new risks into the systems that they do not entirely dislodge.

Second, and relatedly, foregrounding infrastructures invites IR students to think about the ways in which technological changes can tie together activities that are dispersed across space. For Libra to viably facilitate cross-border payments it must connect myriad local practices to traverse the 'last mile' and reach end-users. This a serious, yet far from unique, challenge — as Daivi Rodima-Taylor and Bill Grimes point out in their analysis of digital payment systems. One manner of navigating this challenge would be that sellers universally accept Libra as payment for goods, workers accept Libra as payment for wages, banks accept Libra as payment for debts, and so on. Payments, in short, must largely remain contained within the Libra system. A perhaps more plausible scenario, though, is that users find, or themselves construct, readily available contact points to pay in and withdraw money from their Libra wallets. Either scenario is dependent on widespread access to the Internet and smartphones — services and materials that are unevenly distributed in a world facing persistent 'digital gaps'. Indeed, recent evidence from Southern and Eastern Africa suggests that poorer users are eschewing existing fintech applications specifically because of the impossibility of using them without paying for expensive smartphones and carrier plans. Who, we might ask, is Libra 'cheaper' or 'more accessible' for then? What kinds of costs might its widespread adoption impose on already vulnerable populations? Thinking in terms of infrastructures then invites IR students to consider questions of how patchy and uneven the reach of an ostensibly 'global' payment system like Libra might be.

Finally, foregrounding infrastructures helps question power dynamics bundled up in seemingly 'technical' changes. IR has long had a tendency to think about technologies as 'external' forces which impact politics. If we pay attention to how new infrastructures are assembled, we can address questions regarding the specific kinds of power relations they enable, and what kinds of political choices they rely on. For Libra to achieve its stated goal of empowering billions ultimately depends on its ability to position itself as *the* infrastructure for undertaking cross-border payments. Chris Clarke advances a similar argument regarding online platform lending in a contribution to our special issue of the *Review of International Political Economy*. Becoming central to evolving financial infrastructure, however, can involve *further* consolidations rather than *dispersions* of power. Doing so would confer even more power to a group of firms whose activities and interests are notorious for being misaligned with those they claim to be empowering such as Uber and Spotify with the case of taxi drivers and musicians, respectively. While the Libra Foundation claims it will eventually open up to other actors, a target of approximately 100 members is desired by the cryptocurrency's launch in 2020, the extension of actor participation requires an initial \$10 million investment for enterprises and an estimated several hundreds of thousands of dollars in costs even for non-profits.

Meanwhile, Facebook and its partners are increasingly being confronted with existing regulatory systems whose consent of their practices is at a minimum required for their technological innovations to materialize. Nearly three decades ago Susan Strange suggested that opportunities to apply then-novel information and communications technologies to financial activities

were opened up by a combination of conscious policy decisions by governments, especially on the regulation of financial markets and banking institutions, and by a production structure—itsself, in turn, the creation of politically determined laws and administrative decisions—which was predominantly “capitalist” (1990, p. 264).

At a bare minimum, the adoption of new technologies into existing infrastructures requires the passive acceptance of regulators, a condition that can be reversed. Libra's announcement rightly instigated reactions that have profoundly differed from the usual techno-optimism surrounding technology publicity stunts. A growing number of Congressional

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Representatives in the United States advocate a complete ban on Libra. Central bankers and financial regulators across the world have been particularly vocal in maintaining that it is they rather than a cadre of self-selected firms who will ultimately consent on whether or not proposed technological innovations are to materialize. Situating the technical within the political is therefore a must to understand the development and impacts of technological innovations like Libra.

Libra and the International Politics of Financial Infrastructures

Infrastructures usefully focus analytical attention on the power and politics involved with technological change, along with how material objects are bundled with certain actors and activities but tend to exclude others. Thinking in terms of 'infrastructures' invites a helpful degree of caution and scepticism about the scope and pace of technological change. It also invites us to think critically about the kinds of power relations that enable new technologies or that they facilitate. Libra is unlikely to replace state-backed currencies, or existing financial infrastructures, yet it is no less political as a result.

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