

Facebook's Libra might be the best bet for cryptocurrency

June 27 2019, by Carol Elliott



Credit: Facebook

Facebook's recent announcement of plans to launch a new digital currency called Libra was met with a skeptical or even alarmed response from lawmakers, regulators and leaders of foreign governments concerned about the impact on the global financial system. After all, the social media behemoth has been widely criticized in recent years for privacy violations and facilitating hate speech. Is Facebook the right

entity to usher in the "internet of money?"

"If Facebook can't build a truly successful [cryptocurrency](#), I'm not sure who can," said Bill McDonald, a finance professor at the University of Notre Dame who studies financial econometrics and capital markets.

The mission for Libra is stated as "a simple global currency and financial infrastructure that empowers billions of people." The objective is to allow users to buy items or send money at nearly zero fees, similar to PayPal.

McDonald finds Facebook's release of the [Libra white paper](#) important for two reasons.

The first reason has to do with whether people will accept the currency, whether crypto or fiat (government backed). "Although Bitcoin had its moment of fame last year, it never became a common form of money," said McDonald. "About the best way for something in this era to be widely accepted is through [social media](#). Thus, Facebook has the ideal platform to launch a viable cryptocurrency. Broad usage is more important than great technology (see Betamax versus VHS)."

The second reason is more specific to those living in countries with stable economies who don't necessarily see a need for an alternative to government-backed currencies. "Yes, a functional cryptocurrency would allow for things like micro-payments on social platforms, but you don't need this for your trip to Costco," said McDonald. "However, if you are in a low-economic environment and underbanked—which means you are paying more for your financial needs than you should—or if you live in a country where the local currency is more volatile than most cryptocurrencies (e.g., Venezuela), a stable [currency](#) has substantial value. Libra will be anchored to a basket of currencies providing a stable price."

McDonald, the Thomas A. and James J. Bruder Chair in Administrative Leadership at Notre Dame's Mendoza College of Business, previously worked as a vice president at the Schwab Center for Investment Research in San Francisco during the internet boom/bust. His work at Schwab involved implementing online financial planning software, including a patented portfolio optimization package. He has consulted for major investment banks, brokerages and stock exchanges, and served as an expert witness. His research is predominantly in capital markets and he has more than 40 publications spanning leading journals in finance, accounting, management science and economics.

Provided by University of Notre Dame

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