

How Libra could hasten Facebook's demise

June 25 2019, by Marc-David L. Seidel



Credit: AI-generated image ([disclaimer](#))

When Mark Zuckerberg was five years old in 1989, two dominant players in telecommunications made a big announcement.

Compuserve (the first major commercial online service provider) and MCI Mail (one of the first commercial e-mail service providers) [introduced commercial e-mail relays to the public internet](#). These relays connected their centralized networks to the public, outside of their direct

control.

Facebook's [announcement](#) of entering the distributed [trust](#) era with Libra, a new cryptocurrency, is the modern-day equivalent.

And it's likely to have the same result.

Private precursor to public internet

Launched in 1969, CompuServe was an innovator in shared computing. In 1979, it launched Micronet, the [first consumer e-mail system](#). This was quickly followed in 1980 with CB Simulator, the [first real-time online chat service](#).

CompuServe quickly added a wide range of consumer information services such as weather, stock quotes and discussion forums. It tied people together globally through its centrally owned worldwide network.

By 1991, CompuServe had more than [500,000 simultaneous](#) online users. In 1995, it was the largest online service with [over three million users](#).

It has since been called the "[Google of the '80s](#)."

But the big difference is that its network was private and centrally controlled. It was not an open network like the public internet.

Publicizing the commercial internet

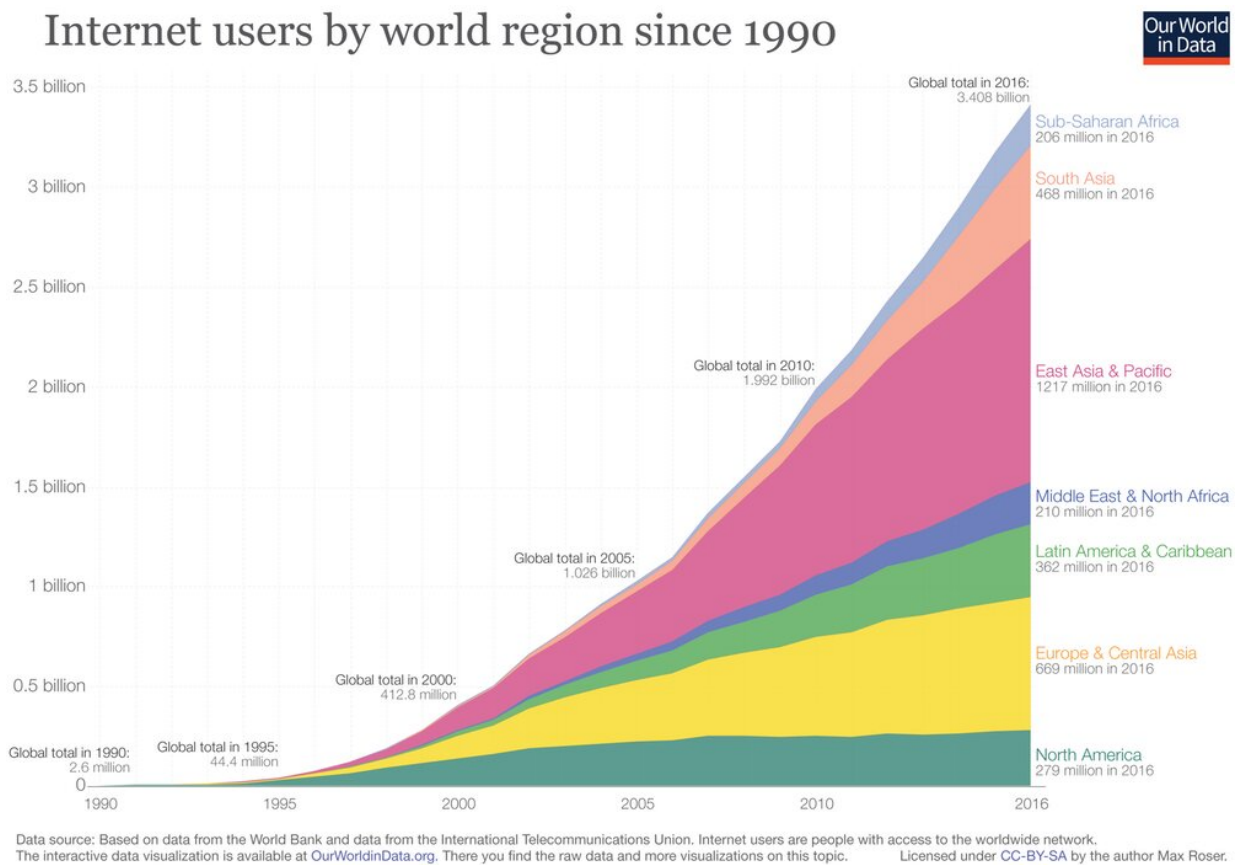
Early coverage of CompuServe and MCI's gateways described the relatively unknown internet as a worldwide research network of government agencies, universities and commercial firms.

This started to legitimize commercial uses of the internet for the general public, but was not without its [controversies at the time](#).

Overall, the relays announcement helped give legitimacy and publicity to the emerging public commercial internet. It started the path to weakening the centralized power of CompuServe and MCI.

At first, the cutting-edge announcement by CompuServe and MCI gave them an advantage. It also gave them the opportunity to shape some of the initial public conceptions of the public internet.

[Traditional industries started coming online](#), giving further legitimacy to internet commerce.



Historical Internet users by world region since 1990. Credit: Max Roser

But these organizations were designed in a time of centralized control. Their model of charging consumers was based on usage. Compuserve stuck with that old model and as late as 1994 they still [charged 15 cents per Internet e-mail received—including for spam.](#)

Power shifts

The shift to more [distributed production models](#), where content was produced by people outside of the organization, was a new world. Many, including Compuserve and MCI, eventually lost power to be replaced by new organizations designed for this new content production model. In 1994, a *New York Times* piece suggested "[...it makes more economic sense to forget Compuserve and get an Internet account, where mail is free.](#)"

This eventually led to the growth of many modern-day platform companies such as Facebook (created in 2003) and Uber (founded in 2009). Such organizations became dominant powerful companies very quickly, disrupting every major industry.

Silicon Valley model

The transition to the Information Age created new distributed business models.

Modern platform organizations operate with a business model focused on [dominating a central, powerful matchmaking role](#). The Facebook platform matches advertisers with eyeballs, for example. The Uber

model matches riders with drivers.

The power of critical mass and the legitimacy of enabling trusted transactions are two keys to the success of platforms. And so the venture capital funding model focuses on building rapid, sustainable growth of these trusted middlemen.

Much of the modern Silicon Valley success story is built around this simple logic.

This evolutionary process parallels the recent [emergence of what are known as *distributed trust* technologies such as blockchain.](#)

The public internet shifted from central control to a shared infrastructure with *distributed production*.

Now centralized trust is shifting to a shared infrastructure with distributed trust. Distributed trust technologies displace middlemen in transactions, and make us [question the role of centralized organizations.](#) Instead of trusting central organizations, people place their trust in the technology itself.

The previous disruptors are being disrupted themselves.

Facebook's Libra partners (including Uber, Ebay, Paypal, Spotify, Visa, and Mastercard) read like a Who's Who of middlemen organizations that are being threatened with disruption by distributed trust.

Old dogs

Organizational theory shows that when market conditions change drastically, [organizational inertia can give an advantage to new companies or institutions.](#)



It's hard to teach an old dog new tricks, including in the tech sector. Credit: Pixabay, [CC BY-NC-ND](#)

Old dogs have a hard time learning new tricks.

So it's no surprise that Libra is entering the space with a "[permissioned model of trust](#)". Such models centralize decision power with a select few—the initial Libra partners.

They are not truly distributed trust models. They are closer to the distributed production models so familiar to major dominant platforms of the last technological wave. On top of that, Facebook will separately offer a [proprietary centrally controlled wallet](#), Calibra, to facilitate Libra

transactions.

The [Libra white paper](#) promises an eventual relaxing of that centralized control to a "permissionless" model. But it offers [no realistic path](#) or requirement to do so.

It asks participants to "trust us" that a truly distributed trust model will come in the future.

Legitimization

History suggests Facebook's introduction of Libra will ultimately help legitimize distributed trust technologies. Major players endorsing Libra adds legitimacy to distributed trust technologies.

The initial actions of CompuServe and MCI Mail led to [government legislation](#). The increased focus on distributed trust generated by Libra will too.

Part of this is due to past breaches of trust by Facebook. In fact, there are already calls for regulation in the [United States](#), [Europe](#) and [Australia](#). Regulations and public discourse will help to bring further legitimacy to distributed trust models.

Regulators should be cautious about biasing legislation to favour incumbents, however, and ensure an open evolution of the true capabilities of distributed trust.

Evolution

Such legitimacy reduces the major barriers to new business models built on a shared, distributed trust infrastructure. This creates a major

opportunity for [new forms of organizing](#) designed without the burdens of past organizational inertia.

There is a good chance that Libra's partners will gain short-term power with this move. Technology diffusion processes can [reward first movers](#).

But those companies were not initially designed to survive in such distributed trust models, and are plagued by organizational inertia.

So the creation of Libra, and the legitimacy it will give to the underlying technologies, paradoxically will ultimately speed the demise of the very same organizations. Bitcoin's price, for example, [has soared since the Libra announcement](#), even though Bitcoin itself is likely to be eventually disrupted by others.

The stars of the modern, platform-based [internet](#) are likely to eventually join the ranks of CompuServe and MCI Mail. They will be replaced with the next generation of organizing designed for these new models of distributed trust—and not burdened by the inertia of the centrally controlled past.

Perhaps Facebook is the CompuServe of 2019.

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Citation: How Libra could hasten Facebook's demise (2019, June 25) retrieved 20 September

2024 from <https://phys.org/news/2019-06-libra-hasten-facebook-demise.html>

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