

Funding the Future

Article URL

Published: January 12, 2026, 6:37 pm

I have been desisting from commenting on Facebook's proposed new currency, which they call Libra. There has been good reason. I wanted to know more; I did not have time to do a lot of initial reading, and I wanted to read what others said.

I would recommend looking at FT Alphaville's analysis of this issue: they shred it, and it's supposed social motivations.

Naked Capitalism has also done an excellent review.

But the real issue here is existential. Whatever Facebook and its partners (who include MasterCard and Visa as well as Uber and other actual or upcoming oligopolist or monopoly users of payment systems) say their purpose is, this supposed currency will be a challenge to the state. The choice of the name is not, I suspect, a coincidence in that case. This is about declaring money free from state control, as far as I can see.

Why else do this after all? Is there really a demand for a new currency from almost any user of Facebook, or other platforms? Do we really want to put exchange risk into the transaction to pay for a cab, or anything else, come to that? And do those making remittances actually want to add another currency into their transmission equation? I can't see any positive answers to any of those questions. To be blunt, I cannot see the consumer at the heart of any of the questions that this currency gives rise to. In that case the answer must be that there is another reason for creating this arrangement.

And let's also dismiss the idea that this is about introducing Blockchain to the world: all the experts dismiss the systems involved in this currency and say that they are not Blockchain. I also note, with some satisfaction, since it is an opinion I have long held, that those experts also think that Blockchain simply could not handle the volume of transactions this system might create. The idea that Blockchain is, then, an answer to anything is, in that sense, shattered as a result and I suspect it always will be that way.

So, this new arrangement would appear to have two purposes, at most. One is to control the consumer. By requiring that they use this service to access other arrangements - and it is suggested that a lot will eventually have this conditionality built into them - then Facebook and its partners can effectively control significant parts

of the user's consumption - and even, it has been suggested, auto-charge for many services. This looks like a range of very large companies - few of whom are much trusted - seeking to take control of a great deal of activity that many would rather remain out of their domain, but about which they may, if Facebook gets its way, eventually have little control. It is a remarkably unattractive idea.

The challenge to government is even less attractive. In my opinion government is all about the ability of a state to exercise economic control of an economy for the benefit of those resident within that place. This is why a currency is synonymous with statehood - as those who created the euro did realise, which is why they did mistakenly put it at the heart of their hope for European integration. And this is also why the power to tax - which is the only thing that really gives a fiat currency its value - is also key to both statehood and economic control of the nation.

Libra is intended to challenge both these ideas. Facebook says that Libra is not a fiat currency, because it is claimed that it will be backed by a bundle of fiat currency holdings. And it says it is not a bank that will issue loans, so it can claim it is not a currency creator. But that, with all due respect them, looks to be a move to ensure that regulation as a bank is avoided. The prospect that a currency that is intended to be used over an enormous range of transactions over a wide range of countries is not akin to a full-blown currency is simply implausible. But, and this is key, the aim to avoid banking regulation is also critical.

I have long argued that the suggestion put forward by the likes of Positive Money that up to 97% of all currency is created by private banks is wrong. This is because private banks can only create currency because they operate under a licence to do so granted to them by a government. In that case the money creation activity that they undertake is simply an extension of the activity that the government itself can undertake to create currency, which it does when spending cash into the economy in pursuit of its own activities. As such there really has been no private money creation of our economies to date: what there has, instead, been is a mechanism where the credit risk on the creation of money has been outsourced to the commercial banks who have made the decisions on to whom to lend to in exchange for which those commercial banks have enjoyed a part of the seigniorage (or profit) arising on currency creation that would otherwise accrue to a government.

Facebook look to be challenging this. They are creating a currency without, apparently, seeking a licence to do so. Their argument might be that this is little more than an extension of an air miles scheme, or any other tradable voucher arrangement, but this is clearly not true. Those schemes first of all have limited application and secondly rely solely upon the promise to pay of the creator of the arrangement: they are, then, fiat currencies, but with remarkably little scope for use which is why they fall out of the remit for any real concern.

Libra on the other hand is designed for general use, over a very wide range of

platforms, and is very clearly intended to be a tradable currency in its own right, which, if it is permitted it will no doubt be. To claim that it will be asset backed is highly likely to be misleading in that case: the idea that Libra will be 100% backed by fiat currencies is only credible on the basis that the person making payment using the system has first to translate their fiat currency into Libra, in the process relieving the creators of the scheme of the obligation to provide much of the capital to support this exercise, but whilst instead supplying them with substantial fiat currency deposits that they will then be able to use to earn a return which will not be shared with those supplying the capital. Coincidentally, these deposits might, in themselves, supply considerable power to Facebook and its partners over currency markets, and therefore governments, which is an issue to which I will return, below.

Let me instead note first that what this currency deposit arrangement makes clear is one aspect of the whole Libra scheme. It is a giant leveraged rent seeking activity intended to benefit a very few at cost to a great many in society. In this way it might well be seen as a classic late-neoliberal enterprise.

Prof Len Seabrooke of Copenhagen Business School and I have been putting a lot of effort into considering just what typifies such activity as part of research for an academic paper that we have been writing. Two characteristics are those that I have already noted. The first of these is indifference to the consumer, whose interests are considered secondary to those of the supplier. A second is a bias within economies towards multinational enterprises, which will provide them with an implicit competitive advantage over the nationally based concern: it should be readily apparent that this is at the core of what Libra is about. And there is a third element that is just as important.

This third element relates to the bias in political administration. As with the other two, we see what is essentially a binary divide. That administration can be biased towards the interests of the nation state or, alternatively, those engaged in the political process that determines this bias can instead focus on the needs of the very small minority of people who, alongside the immensely powerful companies that they control, have a multinational focus to the activities, and whose activities seek to make exceptional, or supernormal, profit by arbitraging international regulation for private gain.

Typical firms that might arbitrage in this way include banks and the Big 4 firms of accountants: together they created the offshore world of tax havens and secrecy jurisdictions that have deliberately undermined the tax revenues of nation states. It is readily apparent that some governments, including that of the UK, have gone out of their way to facilitate this activity. The result is classic neoliberal activity that by necessity reduces state capacity and which, by definition, translated state capacity to tax into private gain for a few individuals.

What I now suggest is that Facebook are simply elaborating on this model. A little macroeconomic theory helps here. The formula that best summarises a government's choices within its fiscal policy is as follows:

$$G = \Delta B + \Delta M + T$$

G is government spending. B is government borrowing, meaning that ΔB is the change in government borrowing in the period. M is government created money supply, which can be thought of as QE, but can very clearly be something more if the ideas implicit within modern monetary theory become more commonplace. ΔM is then the change in a government's money supply used for its own purposes during course period.

To put this another way, G (government spending) is the level of spending provided by the government in pursuit of its policies. Few would dispute that neoliberalism wishes to constrain this. Undermining tax revenues (T) is one way to do this, but it may be that limits to this are now being found. In any event, what fiscal policy makes clear is that government spending need not equal tax revenue. Usually tax revenue is less than government spending, precisely because the government needs to inject more money into the economy to provide it with the liquidity it needs. ΔM is not just a means of government financing, it can also be a mechanism for stimulating economic activity. And in the same way, more borrowing is also a way to meet the demand from the banking sector, pension funds, and others for secure mechanisms for saving the market is, itself, unable to supply. It does, therefore, have fundamental economic role all of its own, albeit that in the neoliberal narrative this, supposedly, 'crowds out' the private sector. Without these mechanisms there is no fiscal policy.

As noted above, the ability to tax has already been challenged. This is one way of threatening the ability of a state to govern, of course. And to some extent there has been a backlash, or at least a reaction, to this. The consequence has been that maybe, as I have suggested elsewhere, the tax gap has fallen. As I also think to be true, tax avoidance is now harder. Mechanisms like country-by-country reporting have ensured that this is the case. The ability of the neoliberal elite to challenge the power of the state by threatening its ability to tax, which in turn undermines its ability to manage its fiscal policy, and so control the economy has, as a result, been reduced. I stress, it has not been eliminated, but it has been reduced.

Now let me put the Facebook proposal into this context. We know two things about government borrowing. The first is that any government that wishes to have full control of its fiscal policy has to borrow its own currency. Second, we know that the government can only create its own currency: it does not have the power to create another. Control of the currency is, then, critical to the effectiveness of any government's fiscal strategy. What we also know is that such fiscal strategies are now fundamental to macroeconomic policy control within any economy precisely because monetary policy is, for all practical purposes, ineffective because interest rates are at, or near the zero bound. But without control of the currency in a jurisdiction the effectiveness of both ΔB and ΔM — or changes in borrowing and government created money supply - might be severely reduced.

There are a number of ways in which this can happen. First of all, capital flows cannot be controlled. If money flows do not go near a central bank — and they would not in the Libra scheme - then the effectiveness of any policy to control capital is severely undermined.

Second, if there is a parallel currency in circulation, in which trade takes place, then we well know that the threat to a government's tax base is very real. We only have to look at why tax yields are so low in places where use of a parallel currency is commonplace to know that this is true: beating tax evasion when parallel payment mechanisms exist, whether peer to peer or via an institution massively compounds the problem of beating tax evasion.

And third, the existence of that parallel currency means that the power of fiscal policy - which depends upon making available or denying a monetary stimulus as a consequence of government action - is necessarily curtailed. And this, if Facebook's Libra were to become commonplace, would be its consequence.

Facebook need not, then, create a new bank. And it might avoid banking regulation. But its goal would still be achieved: the power of the state to manage the economy of a nation could be critically undermined in those places where it still exists by the existence of its currency. And, I would suggest this is precisely what the goal of this policy is.

I can be accused of cynicism for saying so. It may, after all, be that this currency is just about the extraction of rents by an elite. It could be said that I should trust them and believe that this is enough to suit their purposes. But I don't. The tax haven model, and the capture of many of the states involved in it through the process known as the finance curse, has shown that profit is not the sole motive in these cases. There is, instead, something much more systemic in play, and that is what I am seeing with Libra as well.

Modern monetary theory and thinking associated with it threatens the revival of fiscal policy as a credible basis for underpinning the transformation that the Green New Deal requires. Both those policies threaten the objectives of the neoliberal elite who think that they can, in any event, buy themselves out of the consequence of climate change. Having a currency to undermine government effectiveness is a tool to deliver that option. And that is precisely why it has to be challenged and regulated out of existence.