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Libra is imperialism by stealth

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The reintroduction of capital controls in Argentina last week is a grim reminder that, while much of the world struggles to produce enough inflation, there remain places where a currency's value can collapse quickly. In this great read (https://www.ft.com/content/56e253f8-d00a-11e9-99a4-b5ded7a7fe3f%20) from the FT's Argentina correspondent Benedict Mander, one man explains:

> "Argentina's underlying problem is how do we get — and sustain — a currency that is not only used for transactions but also as a store of value. No one saves in pesos. That is the core of Argentina's economic vulnerability," says Alberto Arizu, a winemaker and the president of Wines of Argentina, a business chamber.

One of the purported benefits of Libra and other stablecoins is that it will relieve people in places like Argentina of the burden of being born in a nation with a volatile currency. Earlier this week German think tank Ifo (https://www.ifo.de/publikationen/2019/zeitschrift-einzelheft/ifo-schnelldienst-172019)was the latest to drink the Koolaid:

> Libra, the planned Facebook cryptocurrency, could help citizens in emerging and developing countries to achieve greater financial autonomy. "In many developing and emerging countries, the central bank is used as an extended arm of the government, which leads to inflation, currency depreciation, and real devaluation of savings. The Libra could enable citizens to escape this kind of financial repression," writes Marcel Thum, Director of the ifo Institute's Dresden Branch.

We are not convinced that this is much of an improvement of the status quo -- namely, dollarisation, which as Benedict reports, is widespread in Buenos Aires:

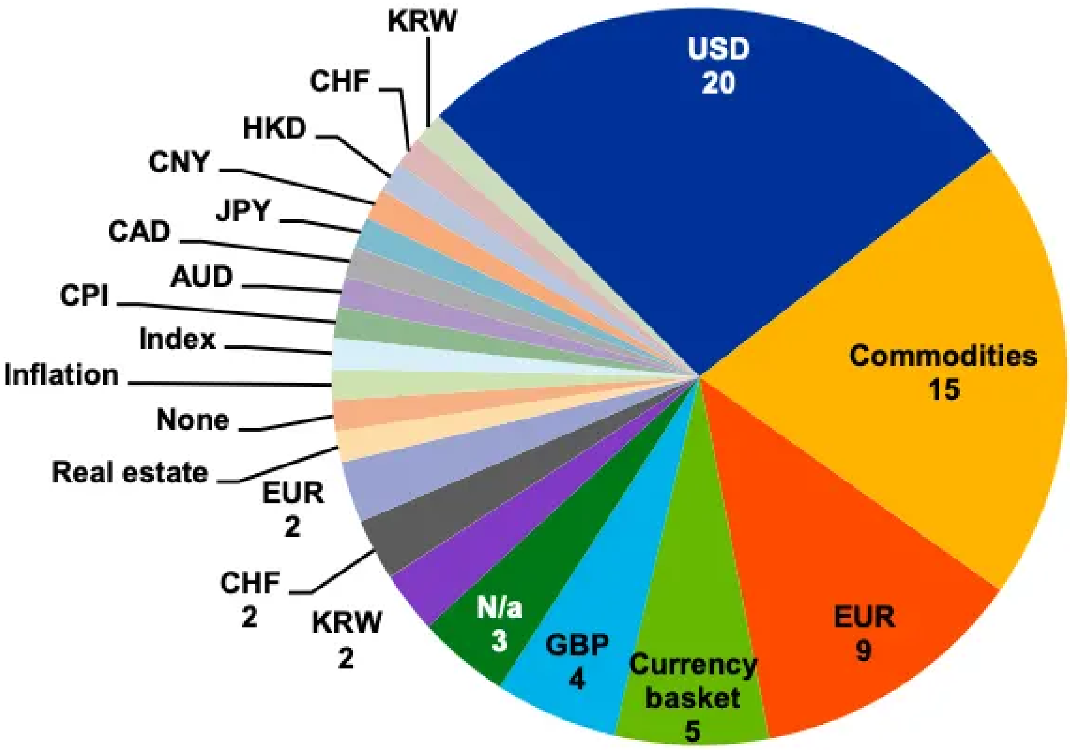
> "Cambio, cambio!" shouts Alberto amid the hubbub of Calle Florida, a crowded pedestrian street in the downtown commercial district of Buenos Aires, alerting passers-by that he can change their money for dollars or pesos.
>
> The "arbolito" — or little tree, as Alberto's informal profession is known, so called for the leafy green of the dollar bills — makes eye contact with a man, lowers his voice and repeats: Cambio, señor?" The man indicates his interest, and Alberto leads him down a gloomy side passage to an unmarked office where a money changer awaits behind a counter. The city's informal money changers are preparing for a resurgence in their business after the Argentine government implemented currency controls last weekend in a bid to stifle demand for foreign currency.

Why are we so sceptical?

While much of the detail of how Libra will actually work in practice remains sketchy, one thing the White Paper is clear on is that the "cryptocurrency", like existing stablecoins, will be backed by assets with a stable value. From the White Paper:

> As the value of the underlying assets moves, the value of one Libra in any local currency may fluctuate. However, the reserve assets are being chosen to minimize volatility, so holders of Libra can trust the currency's ability to preserve value over time.

What are these assets likely to be? On this point the Libra Association is vague, but let's take a look at the other stablecoins on the market to get a sense of the sort of assets which tend to store value:



If Libra follows the route of many stablecoins -- including the dominant market player, Tether -- and backs itself with dollar assets (and, it is difficult to see what else it can do but go down that route), then it is nothing but dollarisation by proxy.

The problem of dollarisation is that, while you hold your wealth in a currency that will hold its value, you have no capacity to ensure monetary policy is suitable for the local economy and are reliant on a central bank with absolutely no mandate to set policy outside their own jurisdiction. (For more on monetary policymakers' views on digital currencies, stable and otherwise, these recordings (https://oecd.streamakaci.com/blockchain2019/) of panels from the OECD's blockchain forum this week, one of which was moderated by Izabella, are worth a watch.)

A common criticism against dollarisation (and currency blocs) is that they are a form of neocolonialism (https://www.tandfonline.com/doi/abs/10.1080/714000893), handing global powers -- whether they are states or tech behemoths -- another means of exercising control over more vulnerable players. Stablecoins backed by dollar assets are part of the same problem, which is why we believe their adoption in places like Argentina would constitute imperialism by stealth.

And with Libra there's an added risk.

We are pretty sure the US Federal Reserve will retain the exclusive right to issue the dollar currency. Libra, on the other hand, is far from the only stablecoin. You could easily have a situation where multiple issuers enter the market, limiting the currency's use as a means of exchange.

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In other discussions Libra PR hacks mentioned that the Reserve will be comprised of USD, EUR, GBP, and JPY. They won't discuss the percentages of each currency.

So it isn't simple Dollarisation but even more dangerous they intend on Librasation... emerging markets being dependent on Libra's monetary policy instead of the Fed's.

A better way to "escape... financial repression" would be to make a wise decision in the upcoming Argentine elections. The Central Bank is an arm of the Government, which is the elected voice of the people in case the ifo Institute forgot about that annoying Democracy thing.

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