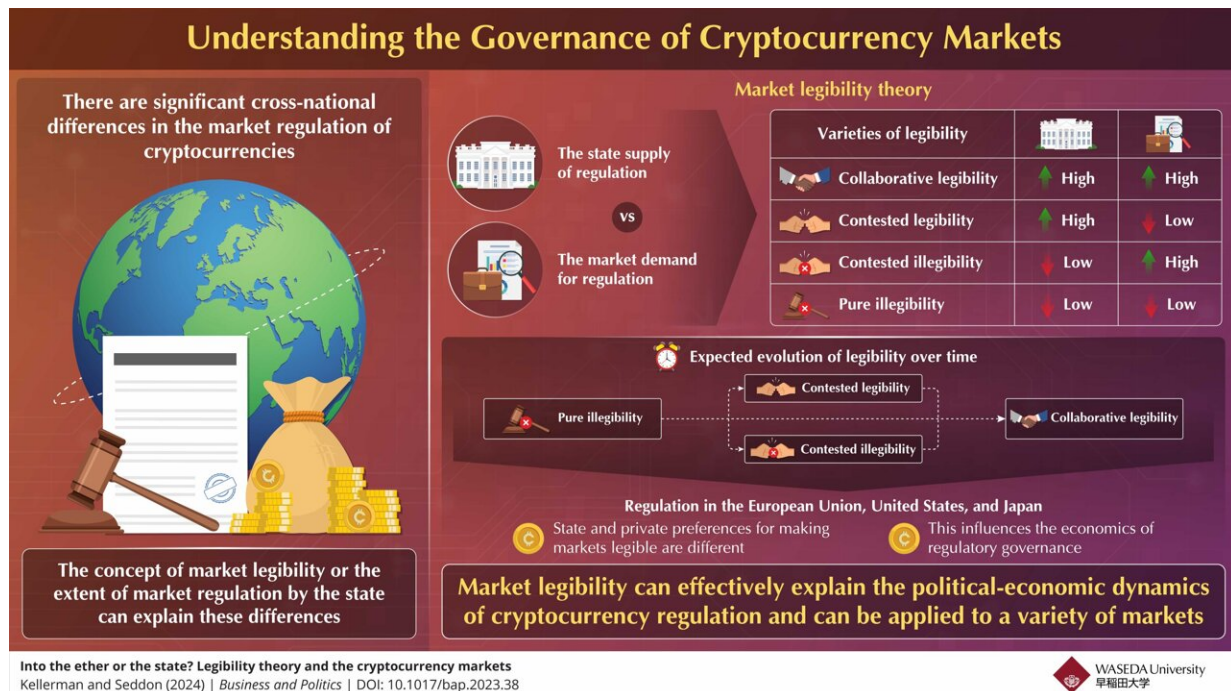


Decoding cryptocurrency regulation in the legibility framework

March 5 2024



Understanding the Governance of Cryptocurrency Markets

There are significant cross-national differences in the market regulation of cryptocurrencies

The concept of market legibility or the extent of market regulation by the state can explain these differences

Market legibility theory

The state supply of regulation vs The market demand for regulation

Varieties of legibility	State Supply	Market Demand
Collaborative legibility	High	High
Contested legibility	High	Low
Contested illegibility	Low	High
Pure illegibility	Low	Low

Expected evolution of legibility over time

Pure illegibility → Contested legibility / Contested illegibility → Collaborative legibility

Regulation in the European Union, United States, and Japan

- State and private preferences for making markets legible are different
- This influences the economics of regulatory governance

Market legibility can effectively explain the political-economic dynamics of cryptocurrency regulation and can be applied to a variety of markets

Into the ether or the state? Legibility theory and the cryptocurrency markets
Kellerman and Seddon (2024) | Business and Politics | DOI: 10.1017/bap.2023.38

WASEDA University 早稲田大学

Legibility is a useful concept that can explain how market regulations evolve over time through the interplay of market demand for and state supply of regulation. It can explain the puzzling cross-national differences in cryptocurrency regulation. Credit: Jack Seddon/Waseda University and Miles Kellerman/Leiden University

Since its introduction, cryptocurrency governance has been one of the most controversial global financial topics. While some countries have

established elaborate regulations for cryptocurrencies, many countries are still reluctant to oversee the markets, and some have outright banned them.

Most studies suggest that public agencies naturally want to regulate markets and bring them into their purview. However, the significant differences in cryptocurrency regulation over the world call this view into question. Moreover, these differences cannot be explained by the development of the financial [market](#) and the capacity of the state. This naturally leads to the question—what is the cause of these differences, and what drives market regulation?

To answer these questions, Associate Professor Jack Seddon from the School of Political Science and Economics at Waseda University and Associate Professor Miles Kellerman from Leiden University's Institute of Security and Global Affairs introduce the concept of 'legibility' to the analysis of financial markets.

"The widespread debate over the extent to which cryptocurrencies should be regulated can be better understood as a political battle over whether to make private markets 'legible' to the state. Our framework conceptualizes this dynamic as a balance of two variables: market demand for regulation and state supply," explained Dr. Seddon.

Their novel framework was presented in a study [published in the journal *Business and Politics*](#).

In this innovative framework, the supply and demand variables together determine the ideal-typical states of market legibility. The demand side represents the competing interests of the various market actors over seeking legibility, and the supply side shows how likely the state is to regulate a specific market. When both demand and supply are low, the markets are in a state of pure illegibility with no regulation.

In contrast, when both demand and supply are high, as is the case for most real markets, the markets are in a state of collaborative legibility.

Additionally, when the state supply is high, and market demand is low, the markets enter contested legibility, where the state wants to bring the market into the legal purview, but market actors resist it. Alternatively, when the demand is high, and the state supply is low, contested illegibility occurs. The researchers also presented an expected progression of markets through these legibility states over time.

According to this framework, most markets start in the state of pure illegibility and, over time, go through either contested legibility or illegibility to finally attain collaborative legibility.

They utilized this framework to study the evolution of the cryptocurrency market in the United States, European Union, and Japan. Their analysis revealed that all three went through the expected stages of legibility, albeit at different rates. The United States, for example, is currently in the stage of contested legibility, while the EU progressed from contested legibility to collaborative legibility.

Japan, unlike the other two, quickly transitioned from pure illegibility to collaborative legibility. Furthermore, the findings also showed that once the final state is achieved, markets do not tend to regress.

These results suggest that legibility is a powerful concept that can also be applied to understand other markets. In the future, the researchers aim to study other markets and countries to realize their full generalizability.

Emphasizing the significance of this study, Dr. Kellerman said, "This study is highly relevant to pressing regulatory concerns. For example, a prolonged state of contested legibility in the crypto market can delay the introduction of regulations that protect consumers. By mapping patterns

of contestation over legibility, our framework takes a first step towards better understanding the political economy of financial regulation."

More information: Miles Kellerman et al, Into the ether or the state? Legibility theory and the cryptocurrency markets, *Business and Politics* (2024). [DOI: 10.1017/bap.2023.38](https://doi.org/10.1017/bap.2023.38)

Provided by Waseda University

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