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Report on the Evening Lecture „The Iron Law of Financial Regulation" from Prof. Roberta Romano

On May 31, the second Evening Lecture of the Summer Semester 2022 took place at the University of Innsbruck. The speaker **Prof. Roberta Romano** from Yale Law School spoke about "The Iron Law of Financial Regulation". The event was organized and moderated by **Univ.-Prof. Dr. Susanne Augenhofer, LL.M. (Yale).**

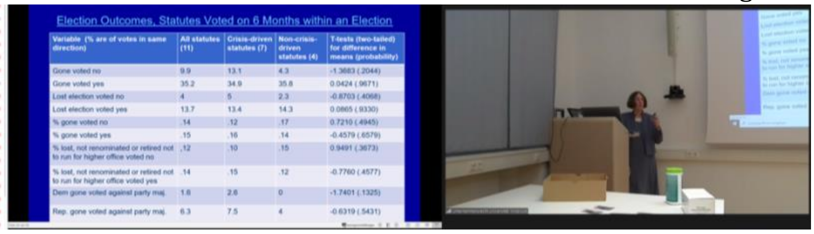
In the lecture, Prof. Romano presented the results of her empirical study. The starting point of the study was the observation that in the USA every major financial crisis was followed by new legislation aiming at regulating the financial sector and in particular banks. Her study exclusively dealt with legislation from the United States; however, Prof. Romano emphasized that the results can most likely be generalized to other "democracies".

As mentioned above, historically, financial crises have regularly been followed by new legislation designed to regulate the financial sector. Emerging demands by media to act quickly and political reactions to the crises are among the main reasons for this regulation behavior by the legislator. After the end of the triggering crisis, however, the new legislation remains in force for a long time; Prof Romano described this as the "stickiness" of regulations.

Of course, regulatory legislation is not enacted only in response to a crisis. However, the "iron law" postulated by Prof. Romano assumes a systematic difference between these two types of legislation. To test this assumption, therefore, the study examined the differences between major legislation enacted in response to a crisis and legislation enacted without such a context. Among the most notable differences found was an increasing density of "restrictive words," that is, strict prohibitions or requirements addressed to banks. In addition, significantly higher complexity was found in post-crisis laws. These findings were established by a text-based analysis of the respective statutes.

According to Prof. Romano, the central explanation for these differences lies in the "salience" of the respective subject of regulation for the legislator. After a crisis, so to speak, the topics dealt with receive greater attention from the media and the public, whereupon the legislator likely feels compelled to enact more restrictive, but also more complex corresponding laws.

In addition, Prof. Romano looked at the political background of the legislation and found that there was a clear divergence in voting behavior between the two U.S. parties, the so-called "party-line votes". However, voting behavior with respect to the crisis legislation did not show any significant effect for the congressmen regarding their political future, in particular, whether they were voted out of office in subsequent elections. Prof. Romano added, however, that the issue of banking regulation is only one of many issues that influence an election, and this may explain the lack of detectability.



We would like to thank Prof. Romano very much for an interesting and informative evening!