'Natural Law' column number three, by Michael Price (uncorrected proof)
Published in *Global Custodian* Fall 2010 issue

The mental origins of banker culture

Most people believe that the selfishness of individual bankers played an important role in the financial crisis of 2007-09. They believe, for example, that if a banker can reap a huge bonus for himself by closing a deal that turns out to be toxic in the long term for his firm and/or society, then he will usually go for it.

It's become fairly common to blame this selfishness on a "culture of greed" that permeates the banking industry. The problem with pinning the blame on culture, however, is that culture can be an abstract and elusive thing. This elusiveness hasn't stopped social scientists from attempting to study culture, but their progress has often been stymied by their insistence on seeing culture as something self-generating and *sui generis*, unconnected to and unconstrained by human biology. As an evolutionary psychologist, I take a more reductionist view: in order to understand the relationship between culture and selfishness, we have to first consider how culture is manufactured by evolved human brains.

In analyzing how banker brains generate banker culture, there are two possible assumptions we could make. First, we could assume that bankers are just typical human beings, acting as selfishly as anyone would under the circumstances. (Of course most bankers represent only one particular morph of *homo sapiens*—the youngish adult male—so they can only represent human nature in general terms. But those terms will suffice here). Alternatively, we could assume that there's something unusual about bankers which makes them especially selfish. Our ability to avoid future financial crises may depend significantly on our ability to determine the extent to which each of these assumptions is correct.

If we're assuming that bankers represent typical humans, then we can also assume that their selfishness often boils down to what academics call a "collective action problem". Research makes it clear that if you pit the interests of an individual against the interests of the group to which he belongs, then he'll tend to favor himself over the group (unless the group metes out socioeconomic punishments and rewards that effectively discourage such selfishness). It's human nature to put yourself first in this context, because natural selection prefers those who get their own genes into the next generation, not those who advance others' genes at the expense of their own. So from this perspective, when a banker chooses personal enrichment over the long-term interests of firm and/or society, he's just doing what most normal people would do under those circumstances.

If bankers do represent normal people embedded in collective action problems, then one reasonable strategy for averting future crises would be to dampen the incentives that exacerbate these problems. Recognizing this potential, some governments have responded to the crisis by introducing regulations designed to disincentivize destructively selfish behaviour and align individual employee interests with the long term interests of firm and society. Examples are stipulations that bonuses be paid in deferred stock rather than cash, or reclaimed via clawback provisions if judged ultimately to be unmerited.

But what if we make the other assumption mentioned above, that bankers tend to be abnormally selfish? There's a plausible scientific basis for this assumption: evolution may favor (due to something called frequency dependent selection) an equilibrium of different social strategies in populations, including a minority of highly selfish individuals who are able to make a living by cheating and exploiting a relatively cooperative and trusting majority. Consistent with this theory, people vary widely in their tendency to behave exploitatively in economics experiments, with a minority emerging as incorrigibly exploitative. Further, psychiatrists estimate that up to four per cent of people in the general population are so relentlessly focused on satisfying their own grandiose desires—no matter who they must harm, or what rules they must break, in order to do so—that they qualify as psychopaths or sociopaths. Such people, research suggests, are overrepresented in business. One could reasonably expect that a disproportionately large number of them end up in the field of investment banking, with the extravagant personal rewards it offers, but only future research can test this hypothesis.

It may be the case, then, that the “culture of greed” is not just the result of normal individuals responding to incentives that are out of alignment with the greater, and longer-term, good. This culture may in fact emerge from the minds of people who are, on average, abnormally antisocial. If so, then in order to avoid future crises we may need to not just realign individual incentives, but also do more to prevent dangerously antisocial people from invading and influencing the industry.