

Bankers got a kick out of the Crunch, says academic

October 22 2010

The bankers who brought the global economy to its knees two years ago may have enjoyed the sensation of losing hundreds of billions of pounds and plunging the world into recession, according to an academic at Cardiff University.

In an article published in *Angelaki: Journal of the Theoretical Humanities*, Dr Paul Crosthwaite claims that the willingness of banks to deal in sub-prime loans and related derivatives, which were bound to result in disastrous losses, can only be understood if the bankers unconsciously desired the destruction of their own institutions. Such catastrophic losses, Dr Crosthwaite argues, can be sources of masochistic pleasure for those who experience them.

The article *Blood on the Trading Floor: Waste, Sacrifice, and Death in Financial Crises*, coincides with the second anniversary of the emergency moves to nationalize stricken banks in the UK, US, and Europe. Dr Crosthwaite uses psychoanalysis to explain the successive booms and busts that have shaken markets over the last two decades. He argues that financial crises, such as the 'Black Monday' crash of 19 October 1987, the bursting of the dot-com bubble in the spring of 2000, and the [credit crunch](#) that entered into its most intense phase in the autumn of 2008, are expressions of the innate urge for self-destruction which Sigmund Freud termed the 'death drive'.

Dr Crosthwaite, a Lecturer in Literature and Critical and Cultural Theory, draws on anthropological studies of investor behaviour and an

analysis of novels by and about financial professionals. He points to evidence that there is an element of masochistic satisfaction in the experience of running up losses, and that a full-blown crash is a source of euphoria as much as despair.

The financial crash, Dr Crosthwaite argues, is the modern equivalent of the traditional Native American practice of 'potlatch', a ritual ceremony in which the chiefs of rival tribes competed to destroy ever greater quantities of their own possessions. As with chiefs participating in a potlatch, the capacity to generate huge losses, just as much as huge profits, is experienced by investment bankers and financial traders as an expression of their power, prestige, and importance.

Dr Crosthwaite's research challenges conventional economic thinking, which assumes that investors are wholly rational, and always pursue the course of action most likely to increase their own wealth. This assumption has underpinned the free-market, light-regulation economic policies favoured by British and American governments since the early 1980s.

Dr Crosthwaite said: "Economists and financial policymakers must recognize that investor psychology is far more complex than their models have allowed up to now. They need to take much greater account of psychological factors such as emotion and desire, which affect how market actors behave in profound ways."

Dr Crosthwaite believes his research strengthens the case for tighter restrictions on the risks assumed by financial institutions. His findings suggest that bankers and other investors take on excessive risks not simply because of an urge for high returns, but also out of an active desire for painful but exhilarating losses. Rather than being rational, efficient models of equilibrium and stability, as mainstream economists maintain, financial markets are inherently predisposed towards crisis

because of their participants' tendency to seek excess – both excessive gain and excessive loss. The damaging consequences of such excess for the wider economy are starkly apparent in the recent recession and the cuts to public services now being imposed to reduce the deficit resulting from the bank bailouts.

"To avoid a repeat of the 'great recession,' it's vital that policymakers and regulators limit the capacity of financial professionals to engage in excessive practices by curbing the disproportionate levels of risk that we've seen in the financial sector in recent years," Dr Crosthwaite said.

Provided by Cardiff University

Citation: Bankers got a kick out of the Crunch, says academic (2010, October 22) retrieved 23 April 2024 from <https://phys.org/news/2010-10-bankers-crunch-academic.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.