

The Law of Unintended Consequences Once Again

Peter L. Bernstein

I recently encountered a remarkable quotation:

There are two passions which have a powerful influence in the affairs of men. These are ambition and avarice, the love of power and the love of money. Separately, each of these has great force in prompting men to action, but, when united in view of the same object, they have in many minds the most violent effects.... And of what kind are the men that will strive for this profitable preeminence, through all the bustle of cabal, the heat of contention, the infinite mutual abuse of parties, tearing to pieces the best of characters? It will not be the wise and moderate, the lovers of peace and good order, the men fittest for the trust. It will be the bold and the violent, the men of strong passions and indefatigable activity in their selfish pursuits.

Now I invite you to guess who made this wise pronouncement and when it was issued. The correct answer appears on page 111 of this issue.

I offer this quotation here for more than its striking foresight and understanding of human nature. These words relate directly to my introduction in the Fall 2002 issue of *The Journal of Portfolio Management*, where I decried the destructive

impact of those who combined ambition and avarice in our own time, “[men] who did in the era of rejuvenated capitalism, taking aim at the very heart of the system by gobbling it up to satisfy their own cupidity” (italics in the original).

These violations of trust have unleashed a great wave of reforms, and the authorities are attempting to rewrite the rules and regulations to block the predatory behavior of men—and women—who combine avarice and ambition. Indeed, reform is essential, because these selfish pursuits are truly awful.

Yet, like so many things in life, reform has unintended consequences and side effects. It works in only one direction. In our new world of prudence, strict accounting standards, and transparency, how many men and women with an appetite for risk and a fire in their belly will step forward to accept senior executive positions or serve on a board of directors? From the looks of it, only bean-counters need apply.

Yet there is no way we can regenerate an era of global dynamism without the imagination, creativity, and determination of the swingers and free souls of the 1990s. Many played dirty with those who believed in them, but we shall miss their enterprising spirit and inspiration.

Is there any way we can discover people who pursue either ambition or avarice without succumbing to both at once? A lot of P/Es hang on the answer to this question.