

**First-best Management Academy**  
**Proposal for consideration by global leaders**  
by  
**Professor Sankarshan Acharya**  
**University of Illinois at Chicago**  
&  
**Research Center for Finance and Governance, India**  
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## **1. Introduction**

The term first-best has been coined in economics to connote efficient rules (system) which are attained in an economic equilibrium of an economy consisting, for example, of net-worth maximizing firms and households. Economic equilibrium is akin to stability mandated by the constitution. Equilibrium policies are thus paramount for any nation.

Nobel Memorial Prizes in economics have been conferred on papers which show that a first-best equilibrium (comprising the most efficient rules) is not attainable because the agents (for example, the CEOs controlling firms) know more than the principals (e.g., shareholders, debt holders and citizens). These papers have demonstrated that only second-best (inefficient) rules are attainable in equilibrium. These papers tacitly presume the nonexistence of a government to represent the principals.

The second-best rules in the real world basically guarantee first-best status for the agents who control the economy by subjecting the principals (citizens) to second-best sustenance. Private bankers, for example, act as powerful agents to borrow large government insured deposits from the savers (the principals) to trade based on second-best rules after enacting such rules as law to usurp the hard-earned savings of the principals. The principals are unfairly disadvantaged by design and establishment of a system comprising second-best rules.

Under second-best rules, principals always lose and agents always gain, by design. The bankers pay the profits as bonus to themselves, make significant political contributions to pass and perpetuate second-best rules of law and fund academic experts with lucrative banking chairs in prestigious universities to enhance and promote second-best rules of law. Whenever the financial system crashes (like in 2008), (a) the experts pontificate that such crashes are acts of god invisible by humans (without defining god rationally),<sup>1</sup> (b) the lawmakers oblige to print more new money backed by the deprived principals, (c) the usurpers become wealthier and go scot-free, and (d) poverty rises among jobless principals. The wealth is credit laden as debt on the borrowers.

That a second-best system is unsustainable was first discovered in my first-best policy research mimeographed at the Federal Reserve Board in Washington, D.C. in 1991.<sup>2</sup> This paper shows

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<sup>1</sup> See Acharya, S. (2012), "A Unifying Philosophy of Governance," Journal of Governance and Regulation.

<sup>2</sup> The current version of this paper is entitled, "Arbitrage Pricing of Total Risk of Assets and First-best Governance

that first-best rules are attainable in a general equilibrium among potentially leveraged firms and households with debt and equity holders maximizing their net-worth while the capital markets price the total risk of securities by arbitrage and a not-for-profit government monitors and adopts rules of law attained in equilibrium.

First-best rules avert manmade (designed) disasters of the kind wrought by a second-best system. First-best rules prevent those who do not produce globally competitive goods, services and ideas from unconstitutional usurpation of wealth created by those who do produce, serve and create. Only first-best rules are stable and sustainable in the long run. They are obtained in long-run dynamic equilibrium among all players including the government representing the principals.

Only those B-Schools which can reorient their programs towards creation of leaders for first-best management or governance of public and private enterprises will thrive henceforth, because only they will likely be supported by society. Such B-Schools do not exist now, as enumerated completely in this FMA proposal.

As a leader in first-best policy research and training, I would be honored to help create the world's first FMA.

In the aftermath of the 2008 financial catastrophe, government policy can no longer be predicated on an assumption that the public will continue to let the business leaders usurp public and private properties by piling risk on the public exchequer. The public is becoming increasingly restive about the cause of instability of the prevailing system. A Google search for information on system of money and finance shows more than 300 million sites, among which my paper, entitled, "*Constitutional System of Money and Finance*," is at the top.

Political leaders have aligned with an increasingly restive public by rejecting the hitherto considered experts and industry leaders. The US Congress has publicly blamed these experts and leaders (trained in top business schools) for causing the financial catastrophe of 2008 (FCIC Report, 2011).

Business schools hereafter cannot continue to impart business skills, which simply serve the best interest of businesses. They need to be concerned about whether government policies serve the best long-term interest of the public, which inalienably includes the businesses where they work. See, for example, my paper, entitled "*Economic Inefficiency and Unconstitutionality of Short Selling and Privileged Private Clearing House*."<sup>3</sup>

Unless business schools abandon their myopic strategy - predicated on a philosophy that everyone is dead in the long-run and the public is stupid - they will unlikely survive in the long-run.

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of Financial Markets," which has been circulated worldwide and available at <http://proprosperity.com/Research/moralhazardliberty.pdf>

<sup>3</sup> See Acharya, S. (2012), "*Economic Inefficiency and Unconstitutionality of Short Selling and Privileged Private Clearing House*." Journal of Governance and Regulation.

Survival necessitates a *first-best management academy*, which will develop and impart new first-best (efficient) business skills to attain equilibrium between the public and businesses.

The necessity of a First-best Management Academy (FMA) for social and business stability can now be seen, more clearly than ever before. Google search for information on first best management academy yields billions of sites, among which this link shows up at the top (except for the few sites that pay to remain at the top).

The financial crisis, which erupted in 2008 and which still remains a seething cauldron, is worse than the Great Depression according to the Federal Reserve.

The urgency is to research and find first-best business management skills through equilibrium in the real-world game between a smart public maximizing their net-worth by forcing their government to act at their behest and business leaders maximizing the net-worth of their companies. The first-best business management skills so obtained are necessary for survival of businesses which will hereafter come under the purview of first-best rules of governance.

The current business schools have spectacularly failed to conceive of this future direction, which is ironically needed for their existence. Fortunately, crucial first-best business skills in this environment have been already obtained- fair pricing of total risk of assets and firm leverage - in an environment in which first-best (efficient) rules of governance are attained in equilibrium between a smart public engaging the government to act at their behest and profit maximizing business leaders.<sup>4</sup> Faculty research needs to be directed to develop and consummate new first-best business skills in all areas of business, which will be necessary in the evolving economic environment defined by a smart public and profit maximizing business leaders.

This paper presents my vision and self-evaluation for the First-best Management Academy (FMA). If the primary goal of a university is to become a preeminent center on first-best management policies designed to solve real-world problems to beget first-best status for principals (citizens), then I am perhaps the only available candidate with demonstrated leadership to attain this goal.

The primary goal of FMA is to become a preeminent center on first-best policies to solve real-world problems to beget first-best status for principals (citizens).

The term “first-best” was coined in economics to connote efficient rules (system) which are attained in an economic equilibrium of an economy consisting, for example, of net-worth maximizing firms and households. Economic equilibrium is akin to stability mandated by the constitution. Equilibrium policies are thus paramount for any nation. Nobel Memorial

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<sup>4</sup> <http://pro-prosperity.com/Research/moralhazardliberty.pdf>

Prizes in economics have been conferred on papers which show that a first-best equilibrium (comprising the most efficient rules) is not attainable because the agents (for example, the CEOs controlling firms) know more than the principals (e.g., debt holders and citizens). These papers have demonstrated that only second-best (inefficient) rules are attainable in equilibrium. These papers tacitly presume the nonexistence of a government to represent the principals.

The second-best rules in the real world, for example, amount to the following: private bankers borrow enormous government insured deposit funds for trading strategies permitted by the second-best rules enacted as law for usurpation of hard-earned savings of the principals who are unfairly disadvantaged by design and establishment of a system comprising second-best rules. Under second-best rules, principals always lose and agents always gain, by design. The bankers pay the profits as bonus to themselves and make significant political contributions and fund academic experts with lucrative banking chairs in prestigious universities to enhance and perpetuate the second-best rules of law. Whenever the financial system crashes (like in 2008), the experts pontificate that such crashes are acts of god invisible by humans, lawmakers oblige to print more new money backed by principals, the usurpers become wealthier and go scot-free and poverty rises among jobless principals. The wealth is credit laden as debt on the borrowers. That such a system is unsustainable was first discovered in my first-best policy research mimeographed at the Federal Reserve Board in Washington, D.C. in 1991.<sup>5</sup> This paper shows that first-best rules are attainable in a general equilibrium among potentially leveraged firms and households with debt and equity holders maximizing their net-worth while the capital markets price the total risk of securities by arbitrage and a not-for-profit government monitors and adopts rules of law attained in equilibrium.

First-best rules avert manmade (designed) disasters of the kind wrought by a second-best system. First-best rules prevent those who do not produce globally competitive goods, services and ideas from unconstitutional usurpation of wealth created by those who do produce, serve and create. Only first-best rules are stable or sustainable in the long run. They are obtained in long-run dynamic equilibrium among all players including the government representing the principals.

I believe that only those universities which can orient their programs towards creation of leaders for first-best management or governance of public and private enterprises will thrive henceforth, because only they will be likely be supported by society. Such universities do not exist now, as enumerated below. I would be honored to help create the FMA as the leader in first-best policy research and training.

## **2. Crisis of Confidence among Current Business Schools**

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<sup>5</sup> The current version of this paper is entitled, "Arbitrage Pricing of Total Risk of Assets and First-best Governance of Financial Markets," which has been circulated worldwide and available at <http://pro-prosperity.com/Research/moralhazardliberty.pdf>

The necessity for a first-best policy research and teaching program stems from the recent crisis of confidence among current business schools and economics programs worldwide. The crisis of confidence is due to the unprecedented simultaneous failure of leaders-at numerous top, medium and small non-financial business firms, financial firms and regulatory agencies-who are graduates of the existing top business schools and economics departments, which have been guided by the second-best (not first-best) rules of management or governance.<sup>6</sup>

A “disturbing new trend” has emerged in the advanced academies: “the uprisings by students on elite college campuses like Princeton.”<sup>7</sup> Students at Harvard have walked out of a famous professor’s classes and openly complained that the professor was not teaching the truth underlying the unprecedented failure of many top finance and non-finance firms and closure of numerous small scale enterprises in USA during the financial catastrophe of 2008.<sup>8</sup> During this catastrophe, millions of jobs were lost, twenty trillion dollars of wealth was wiped out, and ninety-five percent of American households became bankrupt as their net-worth tied to the prices of their homes crashed.

### **3. Triumph of Truths Discovered in First-best Policy Research**

The ex-head of Federal Reserve Board (the reserve bank of USA) Dr. Alan Greenspan has testified before the Financial Crisis Inquiry Commission of the US Congress that no one in the academy, industry or government saw this crisis coming. Top industry honchos and academic experts have chimed with Dr. Greenspan during their testimonies before the FCIC. The current Federal Reserve chief Dr. Ben Bernanke has highly recommended and endorsed an Oxford University Press book, written by a Yale Business School professor Dr. Gary Gorton, to paint the financial crisis as a slap by the invisible hand (god).

Professor Acharya has, however, appraised the FCIC, Congress and President the truth about a looming failure of the human designed financial system and about the necessity of the first-best policies to avert the failure since 2003 and during the FCIC investigations in 2010.<sup>9</sup> In a memo written to US Congress and President in October 2011, Professor Acharya details how the US Congress accepted the truths discovered in first-best policy research as new laws after the Congress determined that the financial catastrophe of 2008

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<sup>6</sup> See also Professor Acharya’s memo to the US Congress and President entitled, “Necessity of First-best Policy Academy for Economy and Government,” dated November 9, 2011, available at <http://pro-prosperity.com/First-best%20Policy%20Academy.html>

<sup>7</sup> See, Michael Lewis (December 29, 2011), “Princeton Brews Trouble for Us 1 Percenters,” Bloomberg News, at <http://www.bloomberg.com/news/2011-12-29/princeton-brews-trouble-for-us-1-percenters-commentary-by-michael-lewis.html>

<sup>8</sup> See “An Open Letter to Greg Mankiw” By Harvard Talks Politics (November 2, 2011 ) at <http://hpronline.org/harvard/an-open-letter-to-greg-mankiw/>

<sup>9</sup> See Acharya, S. (August 29, 2010), “Truth alone will triumph and prevail,” <http://pro-prosperity.com/USPresidentTruthTriumphs.html>, Acharya, S. (March 2003), “Warning to US Congress on the Current Home Loan Debacle,” <http://pro-prosperity.com/Global%20Economy%20Chatterbox/Warning-USCongress-In-2003-On-Home-Mortgage-Debacle.html>

was manmade due to a failure of second-best policy promoting experts in the academy, industry and government.<sup>10</sup>

While publicly painting the financial catastrophe as godly or natural event which no human could see coming, the experts and financial industry honchos surreptitiously blocked publication of the first-best policy research-founded on the most general mathematical model of economic equilibrium, ever written in the literature, which facilitated a human being to not only foresee a manmade financial catastrophe but also to presage first-best policies for governance of banks and financial markets to preemptively avert the crisis-by 'top' journals and book publishing houses they controlled to dissuade the US Congress from using research not published in their controlled journals for national policy. The same top journals which have published multiple major papers by me have rejected the first-best policy research with frivolous reviews or no reviews. Journals have even refunded the submission fees and returned the paper without any review of first-best policy papers. Correspondence with these journals is available on request.

The prevailing system has continued for centuries because the financial industry honchos could use the second-best rules to nibble away pension funds, mutual funds and individual investments. They could share the usurped wealth with lawmakers via generous political contributions. They could fund top academic institutions through generous gifts. They could found pliable experts through prominent chairs and Nobel Memorial Prizes in economics to promote and enhance second-best rules as the best feasible policies for governance of banks and financial markets and to broadcast periodic financial catastrophes as godly acts that must be redressed by printing new money backed by the humans. The 'experts' financially propped by the established system could (b) train everyone including potential lawmakers with degrees from top academic institutions on second-best rules of law, (b) block the publicity about the existence of first-best policies obtained within a more general mathematical model of economic equilibrium than any other ever scripted, and testify as experts before Congress to maintain status quo of second-best unconstitutional policies.

The established system has so far succeeded in nipping any budding first-best policy expert. I was warned by a doctoral thesis adviser (a renowned professor in economics) to not write papers challenging the established system because he was also warned by his advisers to not do so to remain employed. A system which indoctrinates scholars with maximization of own net-worth never expected to produce a selfless first-best policy researcher.

The established second-best system received a first jolt when the US Congress passed a new unprecedented law to foreclose banks with capital-to-assets ratios falling below an optimal threshold, which was obtained in a general economic equilibrium in a paper published in 1989 in the Journal of Finance by me, coauthored with J.F. Dreyfus while at NYU. The bank foreclosure rule was unprecedented in the history of banks because earlier only banks had the power to foreclose borrowers; citizens had no power to foreclose banks

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<sup>10</sup> <http://pro-prosperity.com/Begetting%20first-best%20status.html>

by any law. This JoF paper has been widely used in top doctoral programs and by bank regulators around the world as a required reading. The US Congress and Federal Reserve then made offers to me. I joined the Fed as a financial economist in 1990 on leave of absence from NYU.

While at the Fed, I observed how banks surreptitiously transgressed (through the bank holding company structure) the newly enacted bank foreclosure rule with tacit approval of top regulators. I was invited to meetings among top regulators and banking honchos, tacitly to endorse such transgressions. Instead, I proved before everyone in those meetings how the transgression of the new bank foreclosure rule was piling enormous financial risk on the public exchequer while generating massive returns to bank owners.

Noticing my irreconcilable stand on first-best policies, the Federal Reserve Board constituted a team of Fed economists, top academic experts, allied journal editors and book publishers to block my first-best policy research, which was first mimeographed by the Federal Reserve Board (Washington, D.C.) since 1991 on two subjects: (i) optimal holding company organization and capital structure and (ii) arbitrage pricing of total risk of assets and first-best governance of banks and financial markets.<sup>11</sup>

Despite the opposition of the most powerful bodies on earth, the truths discovered in my first-best policy research have triumphed and prevailed, as detailed in a memo written to the US President and Congress, “Begetting first-best status for principals (citizens)”: <http://pro-prosperity.com/Begetting%20first-best%20status.html>

I have formulated the most general mathematical model of a real-world game among potentially leveraged banking and non-banking firms including households in which a not-for-profit government plays a significant role to govern (monitor adoption of rules obtained in equilibrium) at the least possible cost to taxpayers. This general equilibrium model subsumes the Nobel Prize winning second-best models which have no role for the government. My model shows that first-best rules are attainable in general economic equilibrium. I have articulated the general equilibrium math model in plain English to communicate the results to the US Congress for enactment of attainable first-best rules to preemptively avert the looming financial crisis since 2003.<sup>12</sup>

The US Congress had already enacted an unprecedented rule (in Federal Deposit Insurance Improvement Act of 1991) to foreclose banks, whose capital-to-assets ratios fell below a minimum threshold, which has emerged from my research published in the Journal of Finance when I was at NYU. The U.S. Congress, therefore, accorded enormous significance to my warning in March 2003 about catastrophic losses running to trillions of dollars to taxpayers if the preemptive safe banking policies (emerging from my general equilibrium model) were not promptly enacted into law. The Congress had sought testimonies from

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<sup>11</sup> The titles and expositions in these papers have changed, but the original mathematical model, theorems and proofs have mostly remained intact since they were first written in 1991. Latest versions of these papers are available at <http://pro-prosperity.com/Research/OptimalHoldingCompanyOrganizationCapitalStructure.pdf> and <http://pro-prosperity.com/Research/moralhazardliberty.pdf>

<sup>12</sup> Acharya, S. (March 2003), “Warning to US Congress on the Current Home Loan Debacle,” <http://pro-prosperity.com/Global%20Economy%20Chatterbox/Warning-USCongress-In-2003-On-Home-Mortgage-Debacle.html>

the Federal Reserve on safety and soundness of the banking system in October 2003. The Federal Reserve also held a conference of experts on the issue. I too was invited to the conference in November 2003. But the Federal Reserve and its experts did not recommend my first-best rules to the Congress.

The exact details of the crisis as presaged by my first-best policy research came true in 2008 (unsurprisingly to me), when the Congress was forced to enact the same first-best policies as I communicated since 2003. This is why the Financial Crisis Inquiry Commission appointed by the US Congress did not believe in the testimonies of the experts, regulators and industry honchos who painted the crisis as an act of god. In its report published in January 2011, the FCIC concluded and the Congress accepted that the financial catastrophe of 2008 was manmade due to a failure of the experts. I have a paper (available on request for discrete viewing) which presents evidence on how the crisis was due to a deliberate suppression of my first-best policy research.

#### **4. Why would a University Championing First-Best Policy Research Thrive?**

The above events have caused a crisis of confidence among business school experts and about the curricula offered in these programs. Industries led by graduates of top business schools have simultaneously failed during 2008. This has worried university administrators and lawmakers. Many of my memos to US Congress and President have been circulated among university administrators, judging from the policy actions at universities and logs on my website, Pro-Prosperity.Com.

A top (perhaps the most prestigious) investment bank which has a powerful sway among lawmakers and which is manned by graduates and ex-professors of top business schools has requested me to testify in its favor before the US Congress and courts at significant contractual remuneration in April 2010. I refused to compromise my integrity by testifying for the current second-best system. Goldman Sachs was indicted and fined \$500 million by the US government a month later. Goldman Sachs and other top banks are still facing serious investigations.

My papers and memos to the Congress have been downloaded worldwide. My students have profusely appreciated my teachings based on his practically relevant first-best policy discoveries.

Consciousness of students of business and economics programs everywhere about not being taught the true causes of the financial catastrophe (other than a description of it as an act of god) contrasts very sharply with the experience of my students. [See the attachments.]

The above events show that future business and economics curricula will definitely evolve around first-best governance of public and private enterprises based on my nonpareil research discoveries.

#### **5. Self-evaluation**



If the primary goal of a university is to become a preeminent center on first-best policies to solve real-world problems and thereby to beget first-best status for principals (citizens), I am perhaps the candidate with a demonstrated leadership to attain this goal through the FMA.

This goal is profoundly important at this  juncture for any top university because the U.S. Congress has found (in the Financial Crisis Inquiry Commission report released in January 2011) that the failure of the second-best policy promoting agents (academic experts, financial guardians, known as the Masters of the Universe, and government regulators who have helped establish and perpetuate the current system) caused the manmade (avoidable) financial catastrophe of 2008, which is worse than the Great Depression according to the Federal Reserve Board Chairman. Please see the attached memo addressed to the US President and Congress entitled “Begetting first-best status for principals (citizens).” This memo shows:

1. Why the principals desire first-best policy?
2. How the agents have established and perpetuated second-best policies?
3. Why the agents have suppressed publication of first-best policy research by the journals and publishers they control?
4. How the US Congress has discovered the truth about my first-best policies?
5. How the US Congress' discovery has led to a proclamation that a failure of the agents caused a manmade (avoidable) financial catastrophe in 2008?
6. What first-best policies the US Congress has already adopted?
7. What are the first-best policies the US Congress can still enact to beget the first-status for principals without tax increases or spending cuts?

Leadership stems from nonpareil ideas for betterment of society. A true leader is one who actually shapes, articulates and communicates such ideas to practically beget first-best status for the principals (citizens) who prop society including the leader. The memo to the US President and Congress illustrates how I have actually demonstrated such leadership to beget first-best status of everyone by winning over the insuperably anchored second-best policy promoting agents.

My leadership success is not due to serendipity or divinity or precocity.<sup>13</sup> It is due to an inherent approach or ability to precisely identify latent systemic problems (that cause inefficiency), obtain first-best policies to solve the problems efficiently and relentlessly pursue for adoption of the policies to beget first-best status for society. Experts do easily

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<sup>13</sup> See Acharya, S. (2011), “A Unifying Philosophy of Governance,” at <http://pro-prosperity.com/A-Unifying-Philosophy-of-Governance.html> for novel rational renditions of terms like “divinity” or “precocity.”

identify and solve transparent problems. But latent problems due to second-best policies are not easy to identify. Even if one identifies latent problems, obtaining first-best policies to resolve them is not very easy. This is why second-best policy experts (many with Nobel Prizes in Economics) have earned fame for having some (second-best) resolution of principal-agent problems. They have argued that first-best resolution of the financial moral hazard problem is not feasible. Such assertions have led to the establishment and perpetuation of the prevailing system of financial moral hazard founded on second-best policies, which collapsed in 2008.

The failure of the established system has shocked the experts, as per their own testimonies before the U.S. Congress. On the other hand, I have presaged the crisis and submitted first-best policies to the Congress since 2003 to preemptively avert the crisis. I have discovered my first-best policies through a more general model of math-econ equilibrium than any other scripted in the extant literature on second-best policy research. My primary goal since 2003 has been to pursue with the U.S. Congress for adoption of my discovered first-best policies to preemptively avert the catastrophe that my research foresaw as coming and causing trillions of dollars of losses.<sup>14</sup>

The Congress not only found that the failure of the second-best policies caused the crisis. It also accepted my first-best policies (like safe central banking and minimum required capital on a consolidated basis for bank holding companies) after the 2008 catastrophe. This demonstrates my leadership in (i) grasping profoundly serious latent problems sapping society before even the established experts could detect the same, (ii) proceeding with confidence to solve arduous problems through first-best policies using more general math-econ models, which renowned experts have considered infeasible, and (iii) pursuing relentlessly for adoption of such policies for long-run prosperity amid stability, while the established experts remain steeped in myopic second-best policies emerging from their narrow models.

My doctoral thesis at Northwestern University was on valuation of latent assets, which has resulted in two major publications in the Journal of Finance and which was a theme of an American Financial Association Presidential address. After I joined NYU, I saw the stock market crash of 1987 unfold across my office windows in the neighboring Wall Street. This led me to probe the underpinnings of why stock markets continually crash. This led to a paper on optimal bank reorganization and pricing of federal deposit insurance with a colleague at NYU. This paper was almost instantly published in the Journal of Finance with a comment from the editor that a very complicated problem was solved with a resulting first-best optimal bank foreclosure rule. The US Congress almost immediately enacted the optimal bank foreclosure rule as new law in 1991. The bank foreclosure law was then unprecedented in the history of the world. It was unprecedented because only banks could foreclose households, and no one, not even the government, could foreclose banks earlier.

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<sup>14</sup> Acharya, S. (2003), "Warning to Congress in 2003," <http://pro-prosperity.com/Global%20Economy%20Chatterbox/Warning-USCongress-In-2003-On-Home-Mortgage-Debacle.html>

The bank foreclosure law restored stability of U.S. banking and tripled the stock market indexes due to a massive inflow of investments to stable banks.

The Federal Reserve at Washington, D.C., then offered me a special package as financial economist. But such camaraderie did not hush me about how (as I observed first-hand) top bank regulators tacitly (latently) permitted the bank holdings companies to transgress the new bank foreclosure rule and how such transgression was designed to privatize profits and socialize losses. The experts and regulators had hoped and argued with hope (without any general equilibrium model) that the banking subsidiaries of the BHCs would be protected by firewalls and by the self-discipline of the CEOs. My observation of how a latent transgression of the bank foreclosure law was piling up of enormous financial risk on the principals led me to develop a very general math-econ model to demonstrate how the latent shenanigans (financial moral hazard due to collusion among regulators and top bankers) could be resolved through only first-best policies without the federal guarantee of bank deposits.<sup>15</sup> The attached memo to the US President and Congress demonstrates how successfully I led to establish the truth about these first-best policies and how my discovered truths triumphed and prevailed.

My leadership remained undaunted by temporary setbacks due to rejection of some of my seminal first-best policy research papers without reviews or reasons given by the same journals which have published my other papers but were reluctant to accept first-best policy research for efficient resolution of the financial moral hazard problem. Such baseless reviews really enlightened me about the prevailing latent network of second-best policy promoting agents who have established and perpetuated the current system. A discovery of the latent network impelled me to adopt an unusual path for a math-finance researcher: articulate in plain English my complicated stochastic dynamic programming game theory model for easy understanding of the true representatives of the principals. I realized that only the elected officials would consider begetting first-best status of principals, which has been the goal of my research. The power of articulation must have convinced even the agents that my first-best policies would prove to be more desirable to them than their second-best policies, ex post. This is why the US Treasury Secretary (a former CEO of Goldman Sachs) thanked me (see the attached letter). So did the US President and Congress.

Given a suitable opportunity, I will build the CFP to make it a nonpareil first-best policy center in the world. My success will, however, depend on the environment provided by the authorities willing to have a first-best policy center.

The failed second-best policy experts are still fresh with a sense of intellectual and leadership defeat after the release of the FCIC report early this year. They are still ruling the roost, however, in most establishments including the academia. They will obviously not welcome to their midst their *bête noire*, the immensely successful first-best policy researcher and leader. I believe, though, that any university which does not have such

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<sup>15</sup> See, Acharya, S. (2010), "Economically Efficient Constitutional Governance," at <http://proprosperity.com/Research/moralhazardliberty.pdf>

hang-up will be open to the idea of a first-best policy leader at the helms of the CFP. I believe that CFP can become a nonpareil center through the guidance and active stewardship of a successful first-best policy leader with an unflinching mission of begetting first-best status for principals (citizens).

It is not only first-best governance of banks and financial institutions in which I have led the fields of economics and finance. It is also valuation of assets based on total risk, as opposed to the extant models of pricing of partial (beta) risk which have no support of data. My research encompasses most fields of finance, from arbitrage valuation of assets to capital structure and bankruptcy, asset rating, debt-equity swap, signaling and econometrics of finance. My students are not only groomed in the nitty-gritty of financial valuation and trading strategies. Some of these graduates have later completed MBA programs in top schools like the University of Chicago and Carnegie-Mellon. They have written to me how easy it has been for them to simply repeat and walk over the courses at those programs due to the material they learnt in my classes.<sup>16</sup> My students (advanced undergraduates) learn about models on valuation of total risk (as opposed to just the extant wisdom based on valuation of partial risks rejected by data) and about first-best governance of banks and capital markets to ensure that the fair valuation models of finance do not go haywire by confounding professionals trained via books and papers that publish the extant wisdom based on unconstitutional and economically inefficient rules of governance designed (manmade) by the second-best policy peddling agents who are deemed (truly) by the Congress to have failed.

My practical experience includes heading the planning department at a Council of Scientific and Industrial Research Lab of the government of India, corporate manager advising the Board of Directors of a major conglomerate in India, financial economist position at the Board of Governors and Federal Reserve System and experience through interaction with top managements of major banks and rating agencies.

## **6. Administrative Experience and Leadership**

Administrative experience as Dean or Associate Dean or HOD in all Business Schools has proved to be ineffective, after the academic experts and government/industry guardians testified before the US Congress that they failed to presage, let alone propose preemptive policies to avert, the financial catastrophe of 2008, which has been considered to be worse than the Great Depression by the current Federal Reserve Chairman.

B-School administrators have indeed failed to motivate academics to conduct research needed to save the economy from periodic financial failures. In contrast, I have immensely succeeded in persuading some of the same academics and government/industry guardians (who have remained anchored within or graduated from the same B-Schools) to establish a

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<sup>16</sup> I have attached a few sample of feedback from my students. For feedback from all students in one semester, see <http://pro-prosperity.com/UIC/Feedback-Fall2010.pdf> . Complete feedback from all students in other semesters are available on request.

first-best efficient system of governance of banks and financial markets to avert periodic failures of the economy.

What I saw after graduation from Northwestern in 1986 was a gargantuan risk facing the American economy: continual failure of banks and capital markets and massive erosion of hard-earned capitals. The 1987 stock market crash, while I was teaching across Wall Street at NYU, impelled me to (a) analyze the prevailing system of money and finance, (b) uncover any latent problem (because the commonly observable problems were being solved by the government guardians and analyzed by the academic experts), (c) search for any actionable policy reform and (d) pursue for reforms for prosperity amid stability of an economy.

I could have then kowtowed the guardians and experts of the established system with the hope of becoming an administrator to dissolve the gargantuan risk through some magic wand, when no one including me knew of any unresolved underlying problem, when even the academic experts including Nobel Laureates were treating continual financial market crises as natural (god-ordained) economic cycles, and when the lawmakers were being trained to accept that economic cycles were natural.

Even if I somehow became a top academic/government/industry administrator or expert by following the current system, I would still have failed like the established administrators and experts, as per their testimonies before the US Congress in the wake of the financial catastrophe of 2008.

I could not certainly have presaged the crisis, let alone discover first-best policies to avert it, just like the other failed experts and administrators, if I simply followed the system by kowtowing the experts and guardians who established and perpetuated it.

Instead of following or kowtowing and then failing, I chose early on to lead and ultimately succeeded in (i) discovering systemic weakness, (ii) finding a first-best efficient system of governance of banks and financial markets and (iii) persuading none other than the US Congress to adopt my first-best policies to avert periodic financial catastrophes that have plagued the economy so far.

I pursued a relentless strategy to (a) decipher that the manmade system of money and finance was plagued by moral hazard, economically inefficient and dangerous to the economy and (b) successfully lead (the unwilling and antithetically trained) powerful academic experts, established guardians of the economy and US policymakers and presidents to reform the established system.

I researched to find an unprecedented rule to foreclose banks, got it quickly published in the Journal of Finance in 1989 and presented it before the American Finance Association meetings to convince the US Congress to consider it for law because it was optimal from the

point of view of taxpayers. The Congress enacted the bank foreclosure rule as law (FDIC-Improvement Act) in 1991. Banks had become the most powerful entities of the economy. The government had no law to foreclose banks before 1991. Prior to 1991, no bank could be easily foreclosed by any government anywhere. The new bank foreclosure law brought stability in banking and capital markets and triggered massive inflow of funds to USA to quadruple the stock market indexes between 1991 and 2000.

A Business School administrator often needs to persuade the professors, who have established their independent niches in teaching and research, to create, for example, a first-best business curriculum with a minimal core that could sacrifice turfs maintained by the same professors. The fact that no business school curriculum has a minimal core shows that no dean has so far succeeded in motivating the professors to sacrifice their turfs for the greater good of his/her school.

Imagine then how I have ultimately succeeded (though after immense perseverance) in achieving a far greater feat of motivating political leaders (who went against the wishes of the powerful bankers and market makers and influential academic experts) to enact first-best rules of governance of banks and capital markets, when indeed I do not control their pay raises, determine their political future or make the immense political contributions that the bankers and market makers are able to make.

What has been the underlying strategy for my success that has indeed eluded the highly paid B-School administrators? My strategy has been consistently based on a credible warning about common survival if the prevailing second-best system is not replaced with my first-best policy discoveries. My warning is credible because the basis of discovery of my first-best policies is a more general equilibrium model than any other crafted in the literature. I have been able to presage the economic events accurately because the real-world outcomes have been consistent with those obtained within the most general equilibrium model.

As a B-School Dean, I will follow the same successful credible strategy of warning about common survival for adoption of efficient policy reforms to make the school first-best. In general, past successes do not guarantee similar outcomes in future. But my strategy has been credible, rational and successful.

About fund raising, I am uniquely positioned to succeed. I will tell potential donors that the new school of management will be the world's first first-best management academy (FMA). I will surely succeed, assuming that I will receive unfettered support by the university administration. I am the only individual available to claim so and pursue for it credibly at the helm of a B-School.

The prominent established schools have all failed to even presage the financial catastrophe of 2008, let alone avert it through preemptive policies. They cannot credibly establish a FMA without me at the helm, because no one has obtained first-best rules of governance of banks and financial markets in a more general equilibrium model than I have and no one ever can have such rules enacted by the US Congress.

The future of management education will be based on equilibrium in rules of business administration and public governance. B-Schools have so far been teaching business administration by presuming that public governance need not be optimal from the point of view of taxpayers (public exchequers) or that the business managers could simply sway public policies to benefit businesses by piling risk on public exchequers. That this can no longer be presumed (due to adoption of my first-best policy research by the US Congress) is reflected in the recent statements from the Kellogg-School Dean.

In any case, no B-School including Kellogg can devise a curriculum to train students on business administration skills and practices which will be optimal given first-best rules for public governance (which the public will force lawmakers to adopt hereafter), because such skills and practices have not been researched expect perhaps the arbitrage pricing of total risk of assets and corporate capital structure done by me.<sup>17</sup>

As a member of College of Business Administration-UIC Executive Committee for over seven years, I actively worked for reorganization of the College and helped achieve the independence of Finance Department and transfer of Economics Department from College of Business to the College Liberal Arts and Sciences. I actively helped the Dean administer the college and evaluate the Dean for consideration by the Provost. I have led teams of researchers in various government regulatory agencies including the Federal Reserve Board, where I was a financial economist, to complete a Congress-assigned high profile project on public ratings of bank assets and ratings-based capital standards, which I submitted successfully. I was deputed by the Federal Reserve Board to advise the Federal Deposit Insurance Corporation on implementation of risk-based deposit insurance norms. I have also organized the College of Business (UIC)-Finance curricula into various tracks. I have been the Head of the Planning Cell at a Council of Scientific and Industrial Research Lab, which is the largest of its kind established by the British Raj in India. I have served as Chief Industrial Engineer and Advisor of the Salgaocar Group of Industrial in Goa, India.

## **7. Letters of Reference**

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<sup>17</sup> Acharya, S. (2011), "Arbitrage Pricing of Total Risk of Assets and First-best Governance of Financial Markets," available at <http://pro-prosperity.com/Research/moralhazardliberty.pdf>

You are welcome to seek the views of any expert in the fields of finance and economics about the success of my first-best policy research. Please keep in mind, though, that the experts have testified before the US Congress that they failed to foresee the financial catastrophe, let alone devise first-best policies to avert the crisis preemptively. I am sure that almost all the experts in the fields of finance and economics know of my research and I see them track my memos and papers at my website, [pro-prosperity.com](http://pro-prosperity.com), which is rated at the top of Google searches for information on optimal governance, unifying philosophy, etc.

Google search for information on system of money and finance yields nearly 400 million sites, among which the link to my paper *Constitutional System of Money and Finance* is at the top.

I have absolutely no problem in you asking anyone to write about me.

Any letter of reference you may obtain should (in my view) be judged, however, vis-à-vis the ordeal I have faced because of the penultimate success of my first-best policy research through direct communication with the US Congress and President.

Individuals in my profession and their powerful cohorts in the industry have taken many unwarranted and unseemly actions to purge me from the academy simply because my papers have (i) accurately presaged the financial catastrophe and obtained first-best policies to preemptively avert the crisis (ii) successfully convinced the US Congress to act on them and (iii) exposed the failure of experts in foreseeing the crisis, let alone avert it, and in painting before the US Congress that the crisis was a slap by the invisible hand (god).

The Congress has come to know how the individuals in my profession have actively collaborated to block publicity of my papers and to harass me for my accurate foresight about the impending financial disaster and for my pursuits to avert it.

Since childhood, I have been an individual of absolute honesty and integrity, harboring no malice or vindictiveness towards others. In fact, when some Congressional leaders appeared to be angry towards the failed finance experts, I wrote about the necessity of not being vindictive and about finding solutions to the serious problems faced by society.

With a natural desire to solve even the most arduous problems, I started research on bank failures in USA in 1987 at NYU, about a year after my graduation from Northwestern. It has been my duty to convince my profession to publish my first-best policy papers. I did not then believe that academic experts - for whom I have had the highest regards and who have written quite well about me - would turn vindictive because of the contents of my research. Neither did I have any inkling then about ever communicating my technical papers with the US Congress and President.

But reviewers rejected my first-best policy papers with outlandish comments like (I paraphrase) "who are you to talk about closure of our banks" and returned the papers without review or by refunding submission fees. Some prominent professors close to me advised me to not pursue such research if I cared for employment. I, however, saw



increasing accumulation of risk on taxpayers and blockage of publication of my first-best policies needed to avert a looming crisis due to such risk.

To a natural problem solver, it then occurred that he should communicate with the lawmakers directly. But the subsequent ordeal faced by me is unconscionably vindictive and malicious. Here are a few examples:

- a. My computer was penetrated during 2008-2009 to use it as a remote terminal to distribute my writings among top secret websites with identities of owners unpublished by the IP registrars. I could manage to find the list of confidential IP addresses which I did not visit but my computer did. When I first noticed the activity in the background of my PC, I did not worry much because I had no skeleton hidden in my closet. But when my email correspondence with students, university staff, and professional journals and book publishers were deleted, I was alarmed. When I monitored the incoming traffic to my modem, I was shocked to notice hits at throttle packets, e.g., from the Cambridge University Computer Center, IBM, Yahoo, Google, Microsoft, etc. It is possible that the powerful interests collaborated with tech firms to take my files. But why Cambridge? The Cambridge U Press (CUP) economics editor had expressed a liking and willingness to publish my book on first-best policy research in early 2003. He had asked me to send him a final printed version of manuscript. After receiving the printed manuscript, however, he responded that his publisher declined to include my book in his collection. I continued to correspond with the CUP editor due to his interest in this research. He was nice to respond to my emails. But he did not respond when I wrote in 2008 about how publication of my book by CUP would have helped persuade the Congress to enact first-best policies faster than it did. The only response, thereafter, was from the Cambridge U Computer Center, hitting my PC at throttle packets to eliminate all my correspondence with journal and book publishers stored in my Microsoft Outlook Server. I wrote about it to the US Congress. Congress passed an anti-PC hacking law in late 2009.
- b. The hackers perhaps tracked my paper submissions to journals to persuade journal editors and reviewers to not accept my papers. I have observed volte face by some editors.
- c. Powerful interests have asked me to join them, but I have not agreed to do anything that could compromise the integrity of my research. I got credible contacts from a top hedge fund, a top investment bank, a top commercial bank, a top head hunter, and a prominent member of the Association of Bank executives.

Abuses of the kind meted to me are natural due to profundity of the issues (first-best policies) at stake for everyone including you. As written elsewhere, though, I would rather be a mendicant than duck my duty to society that has propped me.

A way to find the truth about me is to obtain all the letters of reference submitted for me to NYU, Federal Reserve Board in Washington and UIC at the time they hired me. One can compare the tone of those letters with that you may have heard about me now to discern

how the penultimate success of my first-best policy research might have changed the tone of the referees in my profession.

Honestly, if asked, I will eulogize someone whose work has proved mine to be wrong or useless. I am sure that there are others who will do likewise. But the referees you may have chosen to write about me may not necessarily be so.

Again, I have no problem in you asking anyone to write about me, as I have stated in my application. I am just making sure that the message you receive is accurately assessed.

## **8. Abbreviated Curriculum Vitae**

**Dr. Sankarshan Acharya**

**University of Illinois at Chicago**

**Phone: 815 524 5196**

**Email: [acharya.sankarshan@gmail.com](mailto:acharya.sankarshan@gmail.com)**

Dr. Sankarshan Acharya is a leading researcher of first-best policies for efficient resolution of financial moral hazard. Significant first-best policies obtained in his research have been adopted by the U.S. for governance of banks: (i) bank foreclosure rule, (ii) incentive compatible bank loan loss estimation model, (iii) minimum required capital on a consolidated basis for bank holding companies, and (iv) safe central banking. Dr. Acharya has pursued with the U.S. Congress since 2003 to adopt such first-best policies to preemptively avert a looming financial catastrophe presaged by his general equilibrium model on the game among leveraged firms and a not-for-profit government seeking to minimize its costs. See [Pro-prosperity.com](http://Pro-prosperity.com)

Dr. Acharya has received Ph.D. degree in finance with an award for “excellent performance in doctoral program” from the Kellogg Graduate School of Management at Northwestern University, and Master of Technology in Industrial Management from the Indian Institute of Technology. He has served as an Assistant Professor of Finance at the Stern School of Business of New York University, Financial Economist at the Board of Governors of the Federal Reserve System, Officer-in-Charge of Planning at an Indian Council of Scientific and Industrial Research Laboratory, Corporate Manager-cum-Adviser to Galgaocar Group of Industries in Goa and Lecturer at the National Institute for Industrial Engineering (Mumbai).

Dr. Acharya has published major papers in top journals like the Journal of Finance, International Economic Review, Journal of Banking and Finance, Financial Analysts Journal and Journal of Risk Management in Financial Institutions. One of his papers on optimal bank reorganization and pricing of federal deposit insurance has been on the required reading list of bank regulatory agencies and another on valuation of latent assets has been used in textbooks on econometric estimation of the value of latent information released by firms. Dr. Acharya’s research has sparked a lot of excitement, resulting in invitations from the U.S. Congress to help draft the U.S. bank regulatory law. He has helped the Federal

Reserve Board in establishing optimal bank capital standards, and advised the Federal Deposit Insurance Corporation on deposit insurance reforms.

Dr. Acharya's current research includes arbitrage pricing, valuation of total risk of assets in general equilibrium models, capital structure, game theory and long-run dynamic equilibrium, economically efficient constitutional governance and first-best governance of banks and financial markets. He currently teaches Options and Futures Markets and Fixed Income Securities.