Constitutional Capitalism for First-best Efficient Governance

Obtained in general equilibrium based on rational microeconomic analysis, devoid of parochial dogmas, politics or prejudice

December 15, 2012. Revised April 19, 2013

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This is a compendium of research based on a **general equilibrium mathematical model** of microeconomics of the game among net-worth maximizing stakeholders of leveraged firms, free capital markets pricing securities by arbitrage and a not-for-profit government. The model focuses purely on rational analysis. It is devoid of parochial dogmas, politics or prejudice. In equilibrium, the model attains **first-best efficient policies** which prove to be constitutional and stable. This model is more general than any other scripted in the extant literature for derivation of policies on governance of economies. The first-best efficient policies are antithetic to the second-best policies that stem from extant models driven by parochial dogmas, politics or prejudice. The more general equilibrium model shows that the extant second-best policies are unstable, inefficient and unconstitutional.

The **American Economic Review** and the **European Economic Review** have declined to publish this rational analysis - submitted in a paper entitled, "**Arbitrage Pricing of Total Risk of Assets and First-best Governance of Financial Markets**," because the research is **specialized**, which means that my model is narrow or parochial according to editors of these esteemed journals.. The **Rand Journal of Economics** is more explicit by stating that the analysis in the paper is scholarly, but the tone of its abstract and introduction is driven by politics and philosophy. The **Journal of Economic Theory** declines to publish the paper because it too views this paper as political. The **International Economic Review** rejects this paper after finding it as interesting but pertaining to law, which implies politics that shapes law. The **Journal of Political Economy** rejected a related paper by concluding that I knew little about politics!

The decisions of esteemed journals edited by famous professors in elite universities beg important questions addressed below:

1. Is my research too narrow to not affect the primary goal of the academy of economics and finance of serving the economy on which the academy depends?

My answer: An apolitical and non-dogmatic rational analysis - which proves inefficiency, unconstitutionality and instability of the extant models that have shaped the academy of economics and finance and the current second-best system of governance - cannot obviously be rendered irrelevant or specialized for the academy. The academy can survive only if it credibly remains a fountain of rationality by promoting thought-leaders purely based on their rational analysis.

2. Is my research or am I driven by narrow politics or parochialism?

My Answer: The history of my published research and unpublished papers, memos and or even informal comments [before friends and families] should prove to any dispassionate observer that I am never driven by narrow parochialism or politics. That universalism has made me and shaped my thinking is obvious in my papers like "**A Unifying Philosophy of Governance**," and "**No-subsidy Mantra of Governance to Attain the Most Efficiently Competitive Economy**," both published in the **Journal of Governance and Regulation** and available at pro-prosperity.com.

Since childhood, I have never sought any subsidy, directly or indirectly though membership of any association or union. I have subconsciously felt that subsidy is the primary source of inefficiency of society and that efficiency is vital for survival of society that props my existence. This feeling eventually resulted in an economic theory about the necessity of no-subsidy mantra of governance for efficiency. Most, if not all, political parties, associations, unions and parochial organizations are founded with goals of fetching subsidies for their members. Someone guided by truths including those discovered in his selfless research like no-subsidy mantra cannot be narrow, parochial or political, by any stretch of imagination,.

Yet, I am really thankful and beholden to the editors and reviewers of the esteemed journals based in top universities because they have truly enlightened me about how parochial politics and philosophies have driven the extant academic literature in the fields of economics and finance. Their comments indubitably prove that my first-best efficient general equilibrium policies based on purely rational analysis have shaped a seminal, nonpareil, peerless and novel philosophy, which I have christened as first-best governance or constitutional capitalism.

My rational analysis is obviously not driven, a priori, by any parochial or universal philosophy, politics or dogma. One can objectively ascertain this from the mathematical model of microeconomics presented in the paper, which is also ratified by the comment of the Rand Journal editor that my analysis is scholarly.

The feedback from many esteemed journals have impelled me to present the abstract and introduction in my paper in order to distinguish my first-best efficient policies, obtained ex post in equilibrium of a purely rational model, with second-best policies stemming from parochial philosophies, dogmas or prejudice imposed a priori in the extant models.

The Rand Journal editor correctly sees politics and philosophy in the abstract and introduction of the latest version of my paper. But what he really sees is a contrast between a priori dogma- or politics-driven second best policies with my first-best efficient policies obtained ex post in equilibrium within a purely rational model which is devoid of any a priori dogma, parochial politics or prejudice.

To distinguish my 'scholarly' research, I have explained within the abstract and introduction of my paper how the extant economic models are driven, ex-ante, by narrow assumptions and presumptions which result in (automatically imply) second-best policies underlying the current system of governance that has failed worldwide. But such explanation cannot rationally be stretched to implicate a purely rational model, which is devoid of any a priori dogmas, as driven by politics or philosophy, simply because I have christened my first-best efficient equilibrium policy outcomes as an alternative philosophy (constitutional capitalism for first-best governance).

The rest of this compendium paper summarizes below how (a) the academy of economics and finance is plagued by four gravely false dogmas which have roiled economies around the world, (b) the **current system of money and finance** [1] based on these dogmas abjectly crashed in 2008, (c) the US Congress blamed the established experts' failure for the crisis, and (d) seminal, peerless research on **first-best efficient governance** obviates these grave dogmas by obtaining a new system to preserve the hard-earned capitals of principals (citizens) to stabilize the economy efficiently and constitutionally.

In particular, the following issues are addressed in this paper:

- Capitalism is an inherent human trait of accumulating net assets, which are deemed necessary for freedom from bondage.
- The private market system of storage of hard-earned capital has failed to win the trust of humans.
- The most successful U.S. presidents like Lincoln and Roosevelt have been as confounded, as badly as the common Americans, about the portrayal by modern economics that a rationally-undefined invisible hand (god) causes periodic financial depressions:
    1. The foundation of modern economics was laid by Adam Smith's *Wealth of Nations*, which was ironically (or, deliberately?) published in the same year (1776) in which U.S.A. gained independence.
    2. Modern economics has shaped the notion of capitalist economy adopted by U.S.A.
    3. Modern economics even now relies on some unspecified god for causing periodic financial calamities.
    4. But modern economics fails to define **god rationally**.[2]
    5. The Financial Crisis Inquiry Commission, appointed by the U.S. Congress, rejected the economic experts' blaming of god for the financial crisis of 2008. The FCIC rather found in its report in 2011 that the 2008 financial crisis was manmade and avoidable.
- **Peerless research** on first-best efficient governance of capital markets defines a new economic paradigm christened as **constitutional capitalism**. This paradigm obviates the **following four gravely false and widely pervasive academic dogmas** which have plagued the currently established second-best system of governance and continually roiled economies around the world:

  Dogma-1: The ***second-best governance promoting academy*** has presumed the existence of some latent god (slap of invisible hand), but has failed to rationally define its god. This academy further presumes that its latent god can cause publicly unexpected financial panics or liquidity shocks. This academy then uses its own presumption as the sole basis (a) to claim that federal deposit insurance is necessary by establishing the Federal Deposit Insurance Corporation with power to zero out the private stakes in smaller banks for transfer of valuable assets to a few privileged mega banks, (b) to impose a costly government monitoring on banks, and (c) to grant unlimited privilege to a few mega banks (agents) to control the economic welfare of principals (citizens) through their monetary power via the Federal Reserve Act of 1913. [See **Acharya (2012c)** for a rational specification of god.]

Dogma-2: The ***second-best governance promoting academy*** presumes that whether or not agents can have privilege of control over welfare of principals (citizens) cannot be ascertained through an economic model of general equilibrium. This academy rather invokes a rationally-unspecified latent god to ordain the privilege to a few agents to have the monetary power and richness by subjecting principals to second-best sustenance.

Dogma-3: The ***second-best governance promoting academy*** presumes that data generated by the current second-best system of money and finance can be consistently used to test for efficiency and stability of their system by supposing that the privileged agents are somehow self-disciplined to not precipitate systemic crises.

Dogma-4: The ***second-best governance promoting academy*** presumes that only a part of the total risk of an asset can be priced in equilibrium. As mutual funds and pension plans are guided by this widely pervasive dogma for trading with the current partial (beta) pricing paradigm, they misprice securities and face pillage by the privileged agents with unsurpassed monetary power, because the true systemic stability (equilibrium) is centered at **pricing of total risk of assets**. Continual market crashes are assured if this widely-pervasive false dogma is not moderated with wide publicity of equilibrium pricing of total risk of assets achieved in Constitutional Capitalism.

Dogma-5: The theory that the central bank (Federal Reserve) is a coalition of banks to set the interest rate, as opposed to determination of the rate in equilibrium of a free market economy. The interest rate set by the Fed cannot constitute equilibrium because it excludes coalition of borrowers. It is well-known that any price should be determined in equilibrium between supply and demand in a free market economy. The interest rate is the price of credit. It should be determined in equilibrium between suppliers of credit (savers) and borrowers. Borrowers include the (i) government that provides public service, (ii) business entrepreneurs that create private sector employment which raises tax revenues needed to fund public service, and (iii) households that support prices of produced goods and services and pay taxes for public services. Borrowers are, therefore, as important as the savers for determination of the equilibrium interest rate in a free market economy. Dogmatic setting of the interest rate by a federation of banks is designed to make the lending rate usurious, i.e., larger than the equilibrium rate and cause instability. See research entitled, "**Coalition of Borrowers, Government-Regulated Interest Rate, Safe Central Bank and Interest Rate in Equilibrium**," at http://pro-prosperity.com/Research/Coalition%20of%20Borrowers.pdf

A. **Constitutional Capitalism**

Constitutional Capitalism is founded on **first-best efficient governance** of capital markets. Constitutional Capitalism does not presume - unlike the ***second-best governance promoting academy*** - that a few agents are ordained by some latent rationally-unspecified god to enjoy unlimited monetary power and privilege. Constitutional capitalism emerges from first-best efficiency within a more **general model of the economy** than any other scripted in the extant literature. The research based on such a general model proves that the privilege and unlimited monetary power do not constitute economic equilibrium. This research thus proves instability of the prevailing second-best system founded on the presumed privilege and monetary power of a few agents. It also proves that the second-best system is unconstitutional. Constitutional Capitalism stemming from this research is designed to avert manmade (avoidable) financial catastrophes and unwarranted bondage of principals who persevere to innovate, create and produce globally competitive services and merchandize that balance trade and prop the value of currency. Constitutional Capitalism provides a trustworthy system of storage of hard-earned capitals of individuals (firms and households) that is necessary for freedom from manmade (avoidable) financial catastrophes of the type witnessed in 2008.

The term 'capitalism' is rooted in a word capital, which means net-worth, equal to assets minus liabilities, of an individual household or a firm. Individuals consider net assets as necessary for freedom from bondage. Freedom is common human longing. Capitalism, thus, is a necessary act of accumulation and preservation of net assets to attain freedom from bondage. Individuals cannot abandon an act (capitalism) which is vital for their freedom.

What was then busted by the financial catastrophe of 2008?

- The system of storage of hard-earned capital of individuals crashed in 2008.
- Capital is stored in various units of credits, like dollars and stocks and bonds in dollars. The system of storage of capital busted in 2008.
- Credit means trust. Individuals had trusted the prevailing system for preservation of their accumulated credits. The financial crisis of 2008 eroded this trust.
- Individuals can concentrate on work to attain their potential incomes as long as their surplus savings are invested in a trustworthy system for accumulation of credits. A trustworthy system is, thus, the pillar of capitalism. This pillar cracked in 2008.

The capitalist act of accumulation of credits for attainment of individual freedom from bondage has not been dented, however, by the 2008 crisis. Individuals kept their earned credits in dollars, gold and silver under their pillows in the wake of the banking crisis of 1907. Since the financial catastrophe of 2008, they are increasingly storing their accumulated credits in government treasury securities, gold and silver. The trust individuals in the private market system of storage of capital evanesced due to the 2008 financial catastrophe.

What is in the private market system of storage of capital in which individuals lost trust? It is the capital market shenanigans which cause surreptitious usurpation of hard-earned and accumulated capitals of individuals. These shenanigans are directly and indirectly legalized by requisite laws, acts, policies and procedures. The legally protected capital market shenanigans constitute **second-best governance**.[4] No major player of the second-best capital market shenanigans has been prosecuted for violation of the law after the 2008 financial calamity. This shows **that laws** had been preemptively entered in government books to protect perpetrators of such shenanigans.[5]

The failure of second-best governance has ushered in the first-best efficient governance or Constitutional Capitalism:

- The first-best efficient system of governance exists to attain equilibrium of an economy.
- The first-best system averts usurpation of hard-earned capital, evens surreptitiously, and thus preserve the trust of individuals in it.
- To fulfill their common longing for freedom, individuals obviously want such first-best efficient, trustworthy system for storage of their accumulated capitals.
- The government should, therefore, replace the current second-best system with my first-best efficient system.
- Doing so is necessary because the first-best efficient system of governance is crucial to restore individual trust, freedom and prosperity necessary for constitutionally mandated stability.
- The first-best efficient system averts economically inefficient and unconstitutional usurpation of the hard-earned, accumulated capitals of individuals.
- Only the first-best efficient system of governance can preserve trust, credit or capital.
- My research shows that the first-best efficient system is constitutional and stable, while the current system is not.
- My first-best efficient governance should therefore be the Constitutional Capitalism longed by people worldwide.

B. **Four Gravely False Dogmas of Modern Economics**

Adam Smith's Wealth of Nations (1776) founded modern economics and the American capitalistic economy. Modern economics paints capital market crashes as slaps by some invisible hand (god) without defining god rationally. My **research papers** [6] correct four profoundly false dogmas, theorems, propositions, or assertions, which have not only shaped the academy of finance and economics and founded second-best governance of financial markets, but also jeopardized the economy:

1. Data generated by the current system of money and finance–which has been proved by my research to be economically inefficient, unstable, unsustainable and unconstitutional–can be consistently used to test for efficiency and stability of the current system by presuming that the financial industry honchos are somehow self-disciplined to not precipitate systemic crises. In several memos earlier, I have detailed the inconsistency and falsity of this claim (Alan Greenspan, Allen Berger, Greg Udell, Charles Calomaris, Mark Flannery, and many others).

2. Financial panics are caused by liquidity shocks foisted by some undefined god:

- Any economic proposition or theorem which depends on some unspecified god cannot be rational.
- For instance, the proposition of Doug Diamond and Phil Dybvig that a federal guarantee of bank deposits is necessary for equilibrium depends on liquidity shocks caused by a tacitly latent but unspecified god present in their model.
- The Diamond-Dybvig proposition is as good as a statement that god makes a federal guarantee of bank deposits necessary for an economy. Such a statement is obviously irrational because it is founded on god not defined rationally.
- The academy of finance and economics has, however, taken the above irrational statement as gospel.
- The government has shaped banks and capital markets based on an irrational gospel.

- The Federal Reserve recently reproduced the Diamond-Dybvig paper to broadcast the gospel as an 'explanation' of the financial crisis of 2008.
- Gary Gorton at Yale has formally told through a book published by the Oxford U Press that financial catastrophes of the type erupted in 1907 or 2008 are slaps by some invisible hand (god) which he does not define rationally.
- Many experts including the current Fed Chief, Ben Bernanke, Doug Diamond and other prominent finance and economics professors have publicly extolled and recommended Gary Gorton's book to those interested in learning the causes of the 2008 financial crisis.
- Top academic experts, industry honchos and government regulators have basically blamed some unspecified god for the financial crisis of 2008.
- On one hand, the academic experts assert that the current manmade system is invincible or that the Masters of the Universe (financial industry honchos trained by the finance and economics experts in the academy) have the self-discipline and power to prevent even god from destroying the manmade system of money and finance. On the other hand, when their established system crashes, they contradictorily blame god for causing the crises.

3. Only a second-best efficient equilibrium is feasible when agents have privilege of control over welfare of principals. The authors who have philosophically stamped the academy with such a claim include Milt Harris, Arthur Raviv, Bengt Holmstorm, Paul Milgrom, Joe Stiglitz and many others in the extant literature on adverse selection and moral hazard.

- In plain English, the second-best philosophy suggests that the privilege of controlling the welfare of principals (citizens) allows the agents (controllers of an economy who have been trained in such philosophy) to enjoy first-best status by subjecting the principals to second-best sustenance.
- The extant literature hides a profound truth that principals may withdraw the privilege if doing so can attain first-best efficiency.
- Whether or not controlling agents can have privilege should be determined in equilibrium, as opposed to the presumption made by second-best policy philosophers that agents enjoy the privilege of control, ordained by some unspecified god and uncontested by naïve principals in their models.
- My dynamic general equilibrium model–in which stakeholders of leveraged firms (banks and nonbanks) maximize their net-worth while a not-for-profit government minimizes the cost of governance to taxpayers and markets price securities by arbitrage–obtains first-best efficient governance with agents having no privilege.
- In particular, agents (mega bankers who control the system of money and finance) have no privilege within my first-best efficient equilibrium. In my model, privilege or no-privilege is an outcome of equilibrium, as opposed to a restrictive assumption (concession from an unspecified god) made in the extant literature.
- By presuming that the agents are ordained by god to have privilege, the extant literature basically assumes as true a dogmatic proposition that first-best efficiency is not attainable in equilibrium. The established system of governance of financial markets has been supported by such dogma as gospel, by hiding a profound truth (obtained in my model) that a first-best efficient equilibrium with no privilege is attainable.
- During the first presidential debate on October 3, 2012, Governor Romney challenged President Obama to end the privilege ('blank checks') given to mega banks in the Dodd-Frank Act of 2010. My research and memos submitted to the US Presidents, presidential candidates and members of Congress since 2003 have pursued for elimination of the ordained privilege with a view to attaining first-best level of prosperity amid stability for the economy.

4. Only a part of the total risk of an asset is priced in equilibrium (William Sharpe, Robert Merton, Fischer Black, Eugene Fama, Steve Ross): This extant claim or wisdom in the academy does not hold true within a more general dynamic general equilibrium model of microeconomics developed in my paper, where the total risk of an asset is priced. The decision to not update this extant academic wisdom by refusing to review research on first-best efficient governance entails devastating, unrecoverable economic calamities:

- If economic stability (equilibrium in my model) is centered at pricing of total risk of assets, but the real-world is brainwashed by the extant academic wisdom to trade based on valuation of partial risks of assets, instability marked by catastrophic market crash (of the type observed in 2008) will ensue and be deemed by people's representatives to be manmade (not ordained by some undefined god).
- A few privileged mega banks (facing no risk of their failure by law) profit enormously from trading by valuing total risk of assets against pension plans and mutual funds which follow the academic doctrine of partial risk pricing.
- With privileged mega bankers, the markets have become a vastly **negative sum game**, which can cause catastrophic

unrecoverable destruction of capital of the type we saw in 2008.[7]

- The top journal and book publishers in the academy of finance and economics which control updating of wisdom are financially controlled by the privileged mega banks. The editors and reviewers often occupy top endowed banking chairs and receive Nobel Memorial Prizes instituted by a bank.
- The academy of finance and economics thus faces serious moral hazard and attains only second-best wisdom, which can be corrected by publication of research on first-best efficient governance being embraced by the principals (citizens) and their representatives.
- Impact factors of academic journals are based on citations of the papers published. But any number of citations of papers in these journals which failed to presage the financial catastrophe (let alone conceive of research to discover policies to avert crises preemptively) is not a rational indicator of the true impact of research on principals and the economy that prop the academy.
- Google **ranks** many of my research papers at the top of hundreds of millions of websites based on search for such profound generic subjects as **system of money and finance**, **first best management**, **first best governance**, **unifying philosophy of governance**, **constitutional capitalism**, **safe banking policy**, etc.[8]

In the best interest of the academy and economy, top journals in the academy should obtain responses from the authors cited in this memo and in my papers, rather than adopt a second-best strategy of denying reviews and of resorting to some unspecified god to promote the established second-best system of governance and blaming god for catastrophic failure of the system.

C. **Anxiety of People and their Elected Representatives**

The anxiety of elected leaders now is as serious as it was during the American Civil War of 1860's, when the markets crashed and people agitated. Das Kapital (1867) by Karl Marx (1818-1883) then emerged as an alternative economic paradigm for people to work in communes at equal pay. But communism failed because it could not induce able people to attain their potential to make their nation prosperous and secure. Political leaders are now as worried about the failure of private market system of preserving hard-earned capital as their counterparts were during the Civil War and Great Depression.

Americans may remember Abraham Lincoln for uniting them and for eradicating slavery. But as someone who came to USA to search for new knowledge, I see that Lincoln's acts represent a methodical transformation of the prevailing economic dogma. He reformed the dogma that physically bonded labor enhanced agricultural productivity. He reformed the wisdom that only elite private universities reserved the right to create and disseminate new knowledge. Common people could not get proper education as a result. Lincoln established land-grant universities for common people to achieve economic parity based on their enhanced education and productivity. He pursued a risky Civil War to achieve economic freedom based on unified, as opposed to segregated, diligence. Lincoln's actions indicate that he pursued for prosperity of persevering individuals to circumvent Marx's critique of the established privileged second-best system.

A profoundly successful Lincoln could not, however, fathom how the second-best system of governance could continually destroy hard-earned wealth for bondage of even the most productive and innovative individuals irrespective of color, race, religion and national origin. He could not decipher how capital market players employed shenanigans to usurp wealth by causing massive destruction of capitals accumulated by the vast majority and the engaged elite funded experts to blame some undefined god for the destruction. The Great Depression of 1930's and the Great Recession of 2008 (termed correctly by the Fed as worse than the Great Depression) destroyed a vast amount of hard-earned wealth because of the second-best system of governance. In fact, the Congress for the first time blamed the experts and their promoted second-best system for the 2008 financial catastrophe.

President Franklin D. Roosevelt made the U.S. a welfare state by taxing disproportionately the private market players responsible for causing deprivation due to manmade destruction of wealth of the vast majority. His welfare state could not, however, get the deprived people out of the Great Depression. An extolled guru of the second-best system, Maynard Keynes, advocated for printing money to fund welfare and increase government spending. New money kept the inherently inefficient second-best system oiled for some time. But it did not help people recover from the nadir of depression to trust the wrenching second-best system. The economy improved only after the US entered WW-II and defeated the most productive nations at that time (Japan and Germany) to make them toil for the American defense machinery.

The equitable state created by Lincoln, economic security offered by Roosevelt and the winning of a justified war induced talents from all over the world to immigrate to a truly victorious nation, USA. The American economy thereafter gained its preeminence.

Even the most successful presidents could not, however, root out the true cause of periodic capital destructions, as reminded by the 2008 financial catastrophe:

- The second-best system of governance of private capital markets cause concentration of credit among a few who indolently enjoy the fruits of labor of the vast majority that perseveres to create, innovate and produce globally competitive goods and services needed to secure the nation and prop the currency.
- The persevering people lose the incentive (after they find themselves bonded financially in the wake of decimation of their hard-earned capital) to work hard again to produce, innovate and create as much as needed to keep the nation secure and the currency strong.
- The economy then enters a prolonged state of economic depression.

The **Keynesian philosophy** of sprinkling newly created money in the economy did not work during the Great Depression.[9] Neither will it work now. About 93% of income growth during the last four years has gone to the top 1%, even after sprinkling of about $2.5 trillion of new money created by the Fed and $4 trillion borrowed by the government. Ironically, those who are opposed to welfare subsidies are the net creditors funding the government for such programs. It shows their fear that their accumulated credits will not be honored if they did not fund the government.

This situation now mirrors the aftermath of the banking panics of 1907. The few who concentrated all the credits of the economy (lent as debt to the rest) were afraid then of the losing their accumulated credits. They engaged their front men–the 13 Robber Barons–to meet in secret in Jekyll Island to craft and foist the Federal Reserve Act of 1913 by which the Fed would create new money on the back of the financially eviscerated and bonded people to let the financial institutions honor the credit obligations of only a few privileged individuals, not that of the vast majority that lost almost everything they had accumulated.

During the latest financial catastrophe, the public observed how the Federal Reserve Act protected only a few privileged creditors.

D. **Conclusion**

The research underlying this paper is based on a **general equilibrium model** of microeconomics. This model attains first-best efficiency in equilibrium as it is devoid of parochial dogmas, politics or prejudice. The extant economic paradigms obtain second-best efficient outcomes (ex post within equilibrium in their models) because of they presume ex-ante parochial dogmas, politics or prejudice.

The first-best efficient equilibrium obtained in my model is stable and constitutional. The second-best efficient outcomes are proved to be unstable and unconstitutional within a more general model of microeconomics than any other scripted in the extant literature.

The TRUTH is that the extant economic paradigms are driven by narrow politics and dogmas to perpetuate second-best governance, which has roiled the real-world economy continually. My research strips such narrow politics and dogmas to focus purely on rational analysis within an APOLITICAL and non-dogmatic MICROECONOMICS model of a dynamic game among various stakeholders of an economy.

The presentation of TRUTH in this paper may appear uncomfortable to those who have swayed the profession by their dogmatic or political models and thereby caused the ongoing Great Depression. Exposure of politics, dogmas or prejudice in-built in the extant paradigms is obviously not palatable to them. But they need to and eventually will transcend narrow parochial interests to reckon the truth discovered in apolitical, dogma-less rational analysis.

The current system of governance is second-best. It vests legislated privilege on a few controllers (agents) of the economy. The privilege facilitates surreptitious usurpation of the hard-earned wealth of a vast majority of principals (citizens). This second-best system crashed in 2008.

The 2008 crash paved the way for first-best efficient governance which voids the legal privilege to stop economically inefficient and unconstitutional usurpation. Research shows that only the first-best system can preserve the hard-earned capitals of principals to beget freedom and prosperity, which is needed for constitutionally mandated stability (equilibrium). This is why I christen first-best governance as Constitutional Capitalism.

My research has discovered a profound truth: Constitutional Capitalism is the only system of governance that will ultimately prevail in the long-run because only it can ensure a unanimously acceptable principle of freedom based on perseverance. This first-best governance principle contrasts the failed second-best system's ethos of granting legal privilege to a few controllers to usurp indolently the hard-earned wealth for bondage of the vast majority that perseveres to create, serve, innovate and produce globally competitive goods and services needed for national economic security. The second-best ethos can never be accepted unanimously and will, therefore, fail to prevail in the long-run.

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[1] Acharya, S. (2013), "Constitutional System of Money and Finance," Journal of Financial Transformation, and available at http://www.pro-prosperity.com/Research/Constitutional-Monetary-Finance-System.pdf

[2] For a rational portrayal of god, see Acharya, S. (2012), "A Unifying Philosophy of Governance [Universal Religion and God]," Journal of Governance and Regulation, and available http://pro-prosperity.com/A-Unifying-Philosophy-of-Governance.html

[3] See Acharya, S. (2012), "Arbitrage Pricing of Total Risk of Assets and First-best Governance of Financial Markets," unpublished mimeo available at http://pro-prosperity.com/Research/moralhazardliberty.pdf; and Acharya, S. (2012), "Constitutional System of Money and Finance," forthcoming in the Journal of Financial Transformation, and available at http://pro-prosperity.com/Research/Constitutional-Monetary-Finance-System.pdf

[4] See Acharya, S. (2012), "First-best Management Academy," for a detailed discussion of first-best and second-best concepts, available at http://pro-prosperity.com/Research/First-best%20Management%20Academy.pdf

[5] See Acharya, S. (2012), "Legality, Morality, Constitutionality and Economic Efficiency," available at http://pro-prosperity.com/Legality,%20Morality,%20Constitutionality%20and%20Economic%20Efficiency.html

[6] See Acharya, S. (2012), "Arbitrage Pricing of Total Risk of Assets and First-best Governance of Financial Markets," unpublished mimeo available at http://pro-prosperity.com/Research/moralhazardliberty.pdf; and Acharya, S. (2012), "Constitutional System of Money and Finance," forthcoming in the Journal of Financial Transformation, and available at http://pro-prosperity.com/Research/Constitutional-Monetary-Finance-System.pdf

[7] Acharya, S. (2012), "Arbitrage Pricing of Total Risk of Assets and First-best Governance of Financial Markets," available at http://pro-prosperity.com/Research/moralhazardliberty.pdf

[8] See Acharya, S. (2012), "Arbitrage Pricing of Total Risk of Assets and First-best Governance of Financial Markets," unpublished mimeo available at http://pro-prosperity.com/Research/moralhazardliberty.pdf, for the cited research.

[8] See Acharya, S. (2003), "Safe Banking," American Academy of Business, and available at http://pro-prosperity.com/Research/Safe%20Banking.pdf

[8] Acharya, S. (2012), "Economic Inefficiency and Unconstitutionality of Short Selling and Privileged Private Market Clearing," Journal of Investment Management and Financial Innovation; and Acharya, S. (2012), "Constitutional System of Money and Finance," forthcoming in the Journal of Financial Transformation.

[8] http://pro-prosperity.com/Pro-Prosperity-ranking.pdf

[9] See Acharya, S. (2011), "Fallacy of Keynesian Economy," available at http://pro-prosperity.com/Fallacy-of-Keyensian-Economic-Philosophy.html