Accepted Manuscript

Title: Going Beyond Monetary Constitutions: The Congruence of Money and Finance

Authors: Joshua R. Hendrickson, Alexander W. Salter

PII: S1062-9769(16)30114-4
DOI: https://doi.org/10.1016/j.qref.2017.11.013
Reference: QUAECO 1091

To appear in: *The Quarterly Review of Economics and Finance*

Received date: 1-11-2016
Revised date: 24-8-2017
Accepted date: 17-11-2017

Please cite this article as: Hendrickson, Joshua R., & Salter, Alexander W., Going Beyond Monetary Constitutions: The Congruence of Money and Finance.*Quarterly Review of Economics and Finance* https://doi.org/10.1016/j.qref.2017.11.013

Going Beyond Monetary Constitutions: The Congruence of Money and Finance

Joshua R. Hendrickson[1] and Alexander W. Salter[2]

[1] Associate Professor of Economics, University of Mississippi. Email: jrhendr1@olemiss.edu. Corresponding author.
[1]Assistant Professor of Economics, Rawls College of Business, Texas Tech University. Email: alexander.w.salter@ttu.edu.

Highlights

- Monetary constitutions are concerned with rules at the expense of institutional details.
- Financial stability requires institutional solutions.
- Any self-enforcing monetary constitution must be a self-enforcing financial constitution.

Abstract: We extend the literature on 'monetary constitutions' by arguing that binding rules must go beyond specifying the behavior of the monetary authority. Instead, a genuine monetary constitution must also be a financial constitution: it must take into account the natural and evolved links between money and banking, treating them as a single institution. We present a unified conception of money and banking, show how modern monetary institutions have severed the traditional links between money and banking, and discuss how macroeconomic stability is an unintended result of a *self-enforcing* constitution for the money-and-banking system. Finally, we conclude by discussing the implications of our argument for re-orienting the conversation on post-financial crisis stability towards genuinely institutional solutions.

JEL Codes: E42, E44, E52, G21, P16

KeyWords: Commodity standard, depositors, extended liability, financial constitution, macroprudential policy, monetary constitution.

1 Introduction: Some Lacunae in Discussions of Monetary Constitutions

This paper extends the literature on 'monetary constitutions' by arguing there are important features of a monetary constitution that this literature has not adequately addressed. The literature on monetary constitutions (e.g. Buchanan 1962, 2010; Salter 2014b; Yeager