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HEGEMONS OF A LESSER GOD: THE BANK OF FRANCE AND MONETARY LEADERSHIP UNDER THE CLASSICAL GOLD STANDARD

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Abstract

Conventional theories of international hegemony all agree on the fact that the stabilizing functions of hegemons (i.e., nations which use their power to maintain orderly relations in a given issue-area) are positively correlated with their power. The public goods logic upon which this vision is founded posits that as any potential leader becomes more powerful in a

given issue area, it will increasingly see its own welfare as synonymous with order in the entire constellation of relations within the issue area itself, and consequently have an incentive to provide the necessary public goods (i.e., the components of stability) to bring such order about. Monetary relations under the classical gold standard (1880-1914), however, demonstrated an entirely different set of circumstances. The principal financial actor of the period (the Bank of England) showed little interest in stabilizing monetary relations during that period. It was in fact the Bank of France, a secondary monetary power, which acted much more robustly as monetary leader under the gold standard in protecting convertibility in gold-club nations. But rather than emanating from a perception of strength, such leadership functions in fact emanated from a sense of financial vulnerability. Hence, monetary leadership under the gold standard significantly tilts conventional hegemonic stability theory in that it reveals relative weakness as a catalyst for stabilizing behavior. Moreover, the stabilization functions of the Bank of France were marshaled for the purpose of keeping France in a secondary financial position to Britain, as a front line status would have placed France in the forefront as an international financial shock absorber, which the Bank sought to avoid for the sake of stability in French finance. In revealing a tendency to relent from enhancing a relative position in financial status, this case also cuts against common tenets of hegemonic stability theory. This article suggests that secondary powers can effectively serve the leadership functions traditionally ascribed to hegemons. Such functions can be carried out both directly (as stabilizers) and indirectly (as facilitators of cooperation).

I. Hegemony Versus Leadership, and Relative Strength Versus Relative Weakness

Much has been written on the subject of hegemony in the international political economy. What emerged as an intriguing quest for finding principal sources of stability in the international political economy three decades ago was followed by a critical onslaught that has left few theoretical pillars standing from the classical articulations found in Kindleberger (1986) and Krasner (1976). Historical, empirical, and theoretical critiques have definitively demonstrated that hegemony (i.e., the existence of a preponderant power) is neither necessary nor sufficient for stability in political economic relations.[1] In fact, quite a list of substitutes for hegemony has emerged in the literature over this period: regimes, epistemic communities, international organization, focal points, strategic behavior, and oligopolistic cooperation to name a few (Keohane 1984; Lake 1983 and 1988; and Alt, Calvert, and Humes 1988). Regrettably, it appears that the scholarship on hegemony has fallen victim to an unfortunate misnomer. That hegemony itself, defined as preponderant power in the international system, should be the focus of analysis is inconsistent with the historical track record, which suggests that such preponderance is rare: having perhaps been achieved only twice since the end of antiquity (Great Britain in the 19th century and the U.S. after WWII). Kindleberger (1981, p 251) contends that true

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[1] Rather than citing all major contributions, I suggest the following sources which include both excellent explanations of the theory and extensive citations to the literature. See Eichengreen (1990), Keohane (1980 and 1984), and Gilpin (1987).

preponderance is quite fragile given its tendency to wither quickly as a result of internal and external causes. Keohane (1984), Conybeare (1984), and Nye (2002) suggest that true preponderance would more likely lead to exploitation than stabilization.

But while hegemony per se is not highly relevant historically, leadership is. Leadership can take place over a wider range in the international distribution of power (both primary and secondary powers), it is therefore more elastic as a category of action than hegemony. Hence, leadership rather than hegemony promises to be a more fertile subject for scholarship in international political economy. Having concentrated only on an extreme in the structure of power, the scholarship on hegemony has missed many opportunities to understand the stabilizing functions of nations that were somewhat weaker than the proverbial hegemon (i.e., secondary powers). In fact, a number of revisions of the theory have placed those lesser powers (e.g., supporters) in crucial collective roles as providers of public goods (Lake 1983 and 1988 , McKeown 1983, Kindleberger 1981, Keohane 1984, Gilpin 1987, and Snidal 1985). But even this "stabilizing-cooperation" extension of the theory has underplayed the key role played by individual nations which undertook leadership positions in bringing cooperation about. While these contributions systematically convey the manner in which groups of nations substitute for individual stabilizers, they are deficient in tracing out the process by which individual "leaders" promote cooperation.[2] Indeed, the literature on international political economy shows that leadership, both from principal and secondary powers, has been crucial to the functioning of cooperative schemes governing specific issue-areas (Keohane 1984; Cohen 2001; Moran 1981; Haas, Levy, and Parson 1992; Williamson and Henning 1994; and Jackson 1994). Hence, while regimes may not need hegemony to function, they may very well depend on leadership by secondary powers in one form or another. The literature on hegemonic stability has largely ignored the possibility of leadership exerted by such secondary powers.

This article attempts to fill this gap. It proposes preliminary contributions to leadership theory on the part of secondary powers by looking at the role of the Bank of France as a monetary leader under the classical gold standard (1880-1914). Recent literature on the gold standard suggests that although France was a secondary financial power vis–a-vis Great Britain, the Bank of France nonetheless played a crucial leadership role in the stability of the gold standard. In a sense, France emerged as a "hegemon of lesser gods" (i.e., not really a true hegemon at all in terms of relative power) under the gold standard: while it certainly was not the preponderant financial player of the system, it nonetheless effected important stabilizing functions from a relatively inferior power position. In looking at the role of the Bank of France under the gold standard, this article serves to strongly tilt hegemonic stability theory in the identification of sources of stabilization which cut against fundamental principles of the theory. More specifically, it emphasizes the important role of secondary powers in effecting leadership functions heretofore ascribe predominantly to hegemonic powers by the hegemonic stability literature. In this sense, it is more than just another article about hegemonic stability theory, and how the theory fails to deliver, but also an analysis of the anatomy of

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[2] Valuable contributions which do look at leadership in the promotion of cooperation are Keohane (1984); Gallarotti (2001); and Alt, Calvert, and Humes (1988).

leadership by a secondary power. Hence the main findings of this article fundamentally comprise a testament to the special leadership role which the Bank of France adopted under the gold standard. The article also hopes to contribute to the revisionist literature on hegemony which bears on the role of leadership in the context of collective procurement of public goods.

The article is organized as follows. Sections II and III analyze the financial leadership role played by the Bank of France under the gold standard. Section IV draws implications from this analysis in an attempt to make some preliminary contributions to a theory of non-hegemonic leadership. Section V offers brief concluding comments.

II. France and the Stability of the Classical Gold Standard: Financial Vulnerability and Pre-Emptive Stabilization

The economic historiography on the classical gold standard suggests that it possessed a number of unique qualities that made it inherently stable. The adjustment mechanism among leading nations functioned smoothly as a result of a convergence of favorable developments in the latter-19th century: wars were few and geographically restricted, severe financial crises were also few and restricted, domestic economic performance was fairly sound across nations, nations sustained fairly liberal policies which maintained the necessary market access necessary for adjustment, a multilateral clearing network emerged among leading nations, and a compelling monetary and fiscal orthodoxy among economic elites in leading nations assured domestic policies that facilitated stable exchange rates (Gallarotti 1995). This orthodoxy, which manifested itself on a domestic level, effectively assured the maintenance of low inflationary paths among gold-club nations, which made fixed exchange rates sustainable. As Gallarotti (1995, p. 25) observes, stability in exchange rates among gold-club nations represented an "additive outcome," rather than one imposed externally through hegemonic rules or suasion. Under such circumstances, stabilizing functions traditionally ascribed to hegemonic leaders did not have to be pronounced at all, and in fact they were not. Recent findings show Britain's purported hegemonic management of the gold standard to have been much exaggerated: the British state had no clear goals regarding the stability of the international economy, nor did the Bank of England. Moreover the Bank of England was more frequently the recipient of transfers during periods of financial distress than the provider of transfers. Hence, in periods where leadership was required, its performance left much to be desired. Much of the purported stabilizing action of Great Britain came as an indirect and unintended consequence of maintaining the most liberal economic policies of the period, thus allowing nations unencumbered access to both trade and financial markets, which in turn enhanced adjustment among leading nations. The historiography on the Bank of England shows a surprising apathy toward conditions in foreign financial markets (Gallarotti 1995, Fetter 1965, Viner 1945, Clapham 1944, and Sayers 1976).

That stability under the gold standard was an additive outcome of the pervasiveness of a particular domestic monetary orthodoxy among gold-club nations violates the principle in hegemonic stability theory which states that rules are imposed by powerful

nations onto regime members. As Kindleberger (1981, p. 243 and 1986, p. 11) notes, a system requires a hegemonic nation to "set standards of conduct" and must "persuade others to follow [them]." In the case of the gold standard, rules essentially manifested themselves through a "bottom up" rather than "top down process." Stability in exchange rates was self-enforcing as long as orthodoxy kept nations on a low-inflation trajectory (Laidler 1991, pps. 10,33,34 and Gallarotti 1995, Chapter 7).

The purposive intervention that did take place during the period, and which contributed to the stability of the gold standard, consisted of accommodations involving both central banks as well as private banks which were engineered in response to liquidity shortages in leading financial markets. These were both unilateral and multilateral, arranged in quite ad hoc fashion, normally involved relatively limited transfers, and were extemporized rather quickly following the transfers. While these initiatives tended to be relatively modest in terms of the magnitude of lending, they were nonetheless strategically crucial to the collective maintenance of convertibility under the gold standard (Flandreau 1997 and Gallarotti 1995, pps. 78-85). Hence the initiatives contributed to a stability far greater than the magnitude of the transfers themselves: stability was purchased at a fairly small price under the gold standard. There is no question that the Bank of France stood head and shoulders above other central banks in promoting such initiatives. If the gold standard did have a leader, such a role was more clearly played by the Bank of France than any other public financial institution (certainly more than the Bank of England) or nation.[3] Recent historiography on the classical gold standard as found in Flandreau (1995 and 1997), Plessis (1998), Gallarotti (1995), and Broz (1997) underscores the leading role of the Bank of France in orchestrating lending consortia to address financial distress in major financial markets under the gold standard. Such identification of a heretofore unsung hero is hardly a revelation, as the work recalls the findings of U.S. Congress (1910a). While arguments questioning the leadership of Great Britain and the Bank of England are more familiar, the role of the Bank of France in filling such a void in leadership under the gold standard is somewhat less appreciated.

That non-hegemonic resources strategically engineered by the Bank of France provided the requisite liquidity which under girded the regime violates a fundamental principle of hegemonic stability theory: that stability cannot be purchased or created cheaply. The principle derives from the logic of the theory which equates a substantial need for resources in a system (public goods) with a great capacity to generate such resources by a hegemonic actor. Trivially stated, the hegemon must be extremely powerful or well endowed to stabilize a system. If systems could be stabilized by more modest provision of resources, then you simply would not need preponderantly powerful nations to

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[3] It is important to note that the Bank of France was not acting as a direct agent of the French government in these accommodations. The government per se was much more involved directly with the question of selecting monetary standards, both as a purely domestic concern as well as in a diplomatic context (Einaudi 2001 and Gallarotti 1995).

effect stability: stability could be provided by relatively weaker nations (i.e., non-hegemons).[4]

Throughout the 19th century the Bank of France was the leading *lender of first resort* (i.e., pre-emptive stabilizer): it was the most vigorous provider of capital to other central banks when such assistance was needed. Unlike the Bank of England, it is clear from authoritative histories of the Bank of France that it did have an intense interest in the conditions in foreign financial markets, especially developments in London (U.S. Congress 1910a and Plessis 1998). Throughout the century, the Bank of France had a long series of transfers to the Bank of England. In fact, it more often lent to than borrowed from the Bank. So common was this tendency of the Bank of France to make up for gold shortages in the Bank of England that Ford (1962, p. 19) referred to French gold as the Bank of England's "second gold reserve."[5] Plessis (1998, p. 132) underscores how this international vigilance and willingness to make up for gold shortages in foreign markets actually grew more resolute as the century progressed. A major manifestation of this was the greater accumulation of gold in the vaults of the Bank of France. So as the Bank of England continued to ruffle the feathers of high finance on Lombard Street with its "thin film of gold," the Bank of France was adding to its "hoard of gold" (Flandreau 1995, p. 19; U.S. Congress 1910a, p. 112; White 1933, p. 290; and Plessis 1998, p. 134).

This more vigorous role as an international stabilizer emanated from a sense of relative weakness. The Bank cared about developments in foreign markets because they could have an impact on its domestic financial market. Since it did not have the "pulling" power of Britain, France was in a more vulnerable position when facing serious financial crises. Since Britain could out-pull France in need, French finance could best be protected by interdicting financial disturbances early on, before they became more serious and widespread. Hence, the hyper-vigilance and readiness to stand as a lender of first resort, especially to the Bank of England, represented nothing more than a simple strategy of pre-emptive stabilization in order to avert more fundamental turbulence in French finance. This was reflected in the fact that a preponderance of the actual transfers were made under conditions not considered to be full-blown crises (Kindleberger 1978, pps. 252-59): as they were for the purpose of preventing the kinds of pronounced international financial shocks that might spread to France, thus threatening a destabilizing drain of liquidity from the French banking system (White 1933, p. 194).[6] Interestingly, it was because France cared so much more about domestic finance, that it came to care about international finance (Plessis 1998, U.S. Congress 1910a, and U.S. Congress 1910b, p. 217). International markets

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[4] Eichengreen (1990, p. 271) aptly summarizes this principle by stating the fundamental tenet of the theory: "the notion that dominance by one country...is needed to ensure the smooth functioning of a hegemonic regime." See also Keohane (1980, p. 132), Krasner (1976, p. 322), and Snidal (1985, p. 581).

[5] Kindleberger (1978, p. 188) notes how in the crises of the latter-19th century (1873, 1890, 1907) the Bank of England became more a crisis "borrower" than "lender."

[6] In Patron's (U.S. Congress 1910a, p. 139) words, "The only way for us to meet the effects of [a financial shock in France which originates in foreign markets] is to attack it at its source."

represented the first line of defense for French finance; i.e., mitigating the problem at the source (U.S. Congress 1910a, p. 104 and Broz 1997, pp. 73,74). This enlightened self-interest was a simple function of practicing conventional gold monometallism, where the defense of both national and international convertibility essentially converged. French gold holdings had to be all the greater because they in fact tended to both. Hence it is apparent that French monetary policy, as manifest in the principal objectives of the Bank of France in the 19th century, had significant designs for greater stability in the international financial system and its influence on the development of the classical gold standard (Einaudi 2001 and Flandreau 1995). And more interestingly, these designs emanated in large part from a sense of international financial vulnerability.

The large gold holdings were also a necessity for playing such a role of dual guardian because unlike other leading central banks of the time, the Bank of France was absolutely unyielding in its preference for a stable discount rate (U.S. Congress 1910b, p. 215). The main reason for stability of the rate, which goes back to what the Bank was founded to do, was a conviction that stable conditions in finance and business were founded on consistency in interest rates, which a stable Bank rate would assure. The financial historiography on the period underscores the stability of Bank's rate during the period: it was not uncommon for the Bank to go five to six years without any changes in its rate from the traditions 3%. Statistics on the discount rates of leading central banks of the period show significantly less variance in the rate of the Bank of France than any other (Broz 1997, p. 73 and U.S. Congress 1910a, p. 30). Since the Bank could not make frequent and significant changes in the discount rate to influence capital flows in and out of France, it required a far greater gold buffer stock to accommodate national and international demands for gold. The Bank of England made far more use of its discount rate to influence such flows, which explains why it could hold such meager reserves.

The rigid discount policy also dictated that the Bank of France be much more skillful at managing international flows of precious metals to continue its dual defense of convertibility. In a sense, relative weakness in influencing capital flows (rigid rate, inferior pulling power vis-a-vis Britain) pushed the Bank to impressive levels of financial perspicacity . The Bank protected its gold reserves through both gold devices and loopholes in convertibility laws. Gold devices were widespread under the gold standard, but none more impressively orchestrated than in France. Gold stocks could be influenced through changes in convertibility practices which altered the net values of precious metals by manipulating transactions costs of conversion. For example, when gold was scarce, the Bank of France might resort to making it inconvenient to obtain gold by designating only limited branches as official conversion sites (i.e., few and inconvenient locations), or the conversion itself might be restricted only to a few windows in any given branch for a limited number of hours (U.S. Congress 1910b, pps. 214,215; White 1933, p. 182; and Gallarotti 1995, pps. 47-49). Aside from gold devices, the Bank of France often invoked its bimetallist right to convert notes into silver rather than gold. Maintaining de jure bimetallism allowed the Bank the loophole to protect its gold when scarce. Numerous other practices were invoked, from issuing smaller notes to limiting new accounts at the Bank of France (U.S. Congress 1910a, pp. 125-30 and Plessis 1998, pp. 116,117)). In essence, this

perspicacity was more characteristic of an inferior financial power since the conventional tools of central banks were either restricted in their use or in their influence.

That relative weakness provided the catalyst for regime leadership significantly tilts hegemonic stability theory, especially those strands conceived in a relative power context. In such a context, it is a superior-relative-power position that provides the incentive to manage or stabilize a regime. An inferior-relative-power position carries no such incentives as conceived in the conventional theory (i.e., where collective leadership is not espoused), in fact it more likely carries the incentives to do just the opposite: free ride (Snidal 1985, p. 582). Under the gold standard, the inferior relative power position of France had the opposite effect in terms of activation.

If we look at dominant patterns in the major transfers from the Bank of France to the Bank of England during the 19th and early 20th centuries in the face of financial turbulence in London, we see further outcomes which cut against conventional visions of monetary hegemony. First, the transfers were never outcomes of previously stated commitments to lend in crisis. This violates the Bagehotian orientation of hegemonic lending in last resort: that rules for lending be stated clearly in advance (Kindleberger 1978, pps. 222-26). In fact, after the transfer of 1839, the Bank of France resolutely recommended that its assistance not be taken for granted in the future (Flandreau 1997, p. 745). Moreover, in terms of initiation they were hardly the pre-conceived and systematically initiated schemes of accommodation which conventional visions of hegemonic crisis lending espouse (Eichengreen 1990, p. 300 and Kindleberger 1986, p. 11). They tended to be ad hoc arrangements drawn up quickly in response to turbulence in London and then quickly extemporized once the distress had passed (Gallarotti 1995, p. 80). Again, the transfer of 1839 was representative. Happening to be in London on business, the Governor of the Bank of France, sensing some distress in the gold holdings of the Bank of England, organized a consortium of Paris banks to set up a line of credit for the Bank of England to sell bills (Flandreau 1997, p. 741). Second, these transfers were never purely bilateral accommodations between central banks, but in all cases involved other banks: private and public, which violates the "state-centric" vision as well as the "single actor" vision of hegemonic stability theory. Private banks most commonly mediated the transfers by serving as brokers for clearing transactions in bills, but they also stood as part of lending consortia (Kindleberger 1993, p. 276; Clapham 1944, Vol. II, p. 101; Plessis 1998, 133). The Bank's importance in the accommodations varied from fronting or virtually fronting the entirety of the transfer (as in the cases 1825, 1906, 1907, 1909-1911) to a relatively smaller pledge in a consortium (1836, 1839, 1890). Third, the transfers never constituted "last resort" lending, as in all cases the accommodations made by the Bank of France were among the very first forthcoming. Hence, the Bank of France served more as a vigilant lender of first resort (i.e., pre-emptive stabilizer). There is no evidence in any of these cases that the Bank of England was denied accommodation by either public or private banks. This is hardly surprising, given the general confidence in the Bank among financiers of the period. Fourth, the actual sums transferred by the Bank of France were relatively modest. As noted, in several cases they comprised just part of the pledges made by the lending consortia. In 1890, for example, the Bank pledged only 3 million pounds of the 17.5 million pounds pledged by the consortium organized by

Governor Lidderdale (Kindleberger 1993, p. 276). In all cases, the Bank of France pledges were extremely modest relative to the magnitude of their reserve holdings at the times of the accommodations (White 1933, p. 181, U.S. Congress 1910a, p. 112, and Plessis 1998, p. 134). This was perfectly consistent with their style of early intervention (i.e., intervene while the financial distress was still manageable void of extraordinary measures), as early intervention could effectively abate financial distress with more limited transfers. This pre-emptive posture mirrored a reluctance to lend larger amounts later on under more turbulent (i.e., widespread panic) financial conditions.[7]

Fifth, the arrangements varied in the manner in which they were carried out from case to case. They almost always involved different players, and the transfers of liquidity were instituted in very different ways. Barings, for example, was a common player in several transactions as a broker in bills transactions, but various other public and private European banks were also involved in the arrangements both as bill brokers and lenders. The Bank of Hamburg was a key contributor to pledges in the years 1836 and 1839 (Flandreau 1997, p. 741). Also, while most of the transfers went from France to England, the Bank of France could also channel capital through other countries to meet shortages in London, as in 1906 when drains on London were met with transfers to Egypt (U.S. Congress 1910a, pps. 143, 144; U.S. Congress 1910e, p. 241; and Kindleberger 1993, p. 276).[8] Furthermore, the operations featured differing kinds of bill and bullion transactions, often depending on the players involved in the accommodations (Clapham 1944, Vol. II, p. 101 and Flandreau 1997, p. 741). In terms of the number of actors involved, some (such as the cases of 1825, 1836, and 1909-1911) were effected with a limited number of players, while others (especially 1839 and 1890) were effected with far larger consortia (Flandreau 1997, pps. 741, 757; Kindleberger 1993, p. 66; and Clapham 1944, Vol. II, p. 333). As with ad hoc initiation, this variable and unsystematic orchestration fundamentally cuts against the conventional norm that hegemons construct organized and consistent procedures (systematic rules) for carrying out their stabilizing functions (Eichengreen 1990, p. 300 and Kindleberger 1986, p. 11).

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[7] After 1880, only the transfer of 1890 came under conditions which Kindleberger (1978, p. 258) would rate as full-blown crisis in Britain (the famous Barings crisis). But even this case can be considered as relatively limited in its financial repercussions (Gallarotti 1995, p. 190).

[8] In 1907 another case of channeling (this time through London) was initiated in response to heightened demand for capital in the U.S., with a transfer of American eagles to London being engineered to satisfy American demand which was draining capital from London.

The Bank of France undertook much more concerted and consistent operations to allow capital to flow into London after the operation of 1907. This explains the greater frequency of transfers in the first decade of the 20th century. In this respect, as well as in its shift to more short-term lending as the century progressed, the behavior of the Bank of France showed some systematic change across the gold standard period. There appears less evidence regarding any systematic changes having taken place in the Bank of England's behavior across the period (U.S. Congress 1910e, pps. 284; Plessis 1998, p. 133; U.S. Congress 1910b; Broz 1997; and Plessis 1998).

III. Number Two Tries Harder: To Remain Number Two

The quest to protect Paris from domestic financial crises, which might spill over from other financial centers (principally London), drove the Bank of France to adopt a pre-emptive strategy of tending to smaller disturbances in foreign markets. This explains why the Bank had, in the minds of the Directors, a crucial stake in preserving stability in London and the solvency of the Bank of England, as any disturbance in London would create significant financial fallout in France. Hence, stability in Britain became synonymous with stability in France. But this accommodating posture had another fundamental purpose which was again consistent with the Bank's parochial imperatives. By preserving the status of London as the financial center of the world and the Bank of England in the frontline of international finance, the Bank of France maintained French finance in a somewhat more shielded position. A secondary position in global finance was a position which better accorded with France's domestic interests. It served to mitigate the volatility of international capital flows which might affect its gold reserves. Such capital flows could become especially intense during international crises, with the dominant financial center being called upon to serve as a prodigious lender of last resort and a front-line defender of international convertibility. France was happy to shield its financial system behind Britain should such tumultuous developments arise, thus avoiding demands on its financial instruments (discount rates) and resources (reserves) which were targeted toward domestic goals.[9] Hence, limited international access to its reserves as a pre-emptive and small shock absorber avoided far greater demands which would deplete the hoard of gold that buttressed French finance under more severe international financial distress.

The reserve became almost the sole instrument with which the Bank could buttress French finance as other instruments were either underdeveloped (open market operations) or difficult to manipulate (discount rate). Void of the reserve, it was more likely to use indirect measures such as changes in eligibility requirements than other conventional instruments of central banking (Myers 1936, p. 7). Hence, assuring a large reserve over time was crucial to the stability of the French finance (U.S. Congress 1910b, p. 217). But the reserve gained all the more important a role because of the precarious nature of the French banking system. French banking was fairly underdeveloped relative to other leading nations with respect to banking laws and regulations. There were few regulations regarding banking operations: few restrictions on banking functions, few provisions for note issue, underdeveloped reserve regulation, little governmental overview, and no obligations to report balances to the government. Furthermore, laws defining what constituted banking remained vague throughout the century. The predictable result of

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[9] To quote Patron (U.S. Congress 1910a, p. 112) "Instead of this very lofty, but...dangerous and insecure position [currently occupied by the Bank of England], would it not be preferable to maintain the calm and safe place we occupy in the financial world?" See also Flandreau (1997, p. 759).

these deficiencies was the emergence of a fairly precarious web of finance in which the players were extremely fragile (U.S. Congress 1910b, p. 220 and Myers 1936, p. 100).

Underdeveloped reserve laws governing French finance allowed banks to run extremely low reserves, thus keeping just enough as till money and reliying heavily on the Bank of France for additional reserves in time of need by rediscounting bills. In fact, banks tended to categorize their cash holdings as "on hand at the Bank of France": they did not distinguish between cash held in their vaults and at the Bank of France. The pressure this placed on the Bank's specie was compounded by the underdevelopment of credit instruments in French finance: as disturbances were less amenable to solutions which were purely of a fiduciary nature. In short, the Bank of France needed to accumulate a hoard of gold so as to counteract this underdeveloped system of bank regulation and thus instill confidence in the French banking, especially with respect to the multitude of smaller banks (White 1933 and U.S. Congress 1910b).

Moreover, unlike Great Britain, whose banking system evolved into a very extensive and deep structure of financial intermediaries that stood between the central bank and the fragile fringe of British banking (which was still less fragile than the French counterparts because of more extensive banking laws and regulations), the French system was very shallow. In fact, Kindleberger (1993, p. 115) notes a consensus in the scholarship on French banking that it was at least 100 years behind the British in terms of its evolution. Simply put, the extensive private sources of liquidity that would have served as a buffer between the most fragile financial institutions and the Bank of France never fully developed as they did in Great Britain (U.S. Congress 1910b and U.S. Congress 1910c). Both large deposit banks and investment banks came along late in the game (after 1850 and 1866 respectively). But even then, the banks were limited in their business and in their geographic outreach. The French government tried to remedy such shortages and distribution problems in liquidity with the creation of government banks like Credit Agricole and Credit Foncier, but even such official remedies fell short due to limited impacts outside of Paris and outside of urban areas in general. Rural access to liquidity remained a problem throughout the century: even as late as 1863 only three-fourths of French territory actually had access to larger-scale and conventional banking institutions. The demand for liquidity was addressed mainly through informal capital markets with agents such as notaries filling the roles of financial intermediaries (Kindleberger 1993, pp. 97-117 and Des Essars 1896, p. 116). The Bank of France itself was never as animated as it could have been in solving the regional liquidity problem, as some bad experiences with branching early in the century made the Bank less than enthusiastic about creating branches in deprived regions. Hence, with both large financial institutions and extensive branches lacking, the Bank of France stood fully exposed as the sole shock-absorber for large-scale financial crises in France, with only one real weapon (its reserves). But even as the lone shock absorber, the Bank itself continued to feel insecure, for good reason. Its own stabilizing activities were conceived more in the context of consortia arrangements than independent arrangements, and its track record was less than prominent as a result of the failure of major institutions like Credit Mobilier in 1868 and Union Generale in 1892 (Kindleberger 1978, p. 166).

Aside from wanting to avoid the leading position among central banks because it was the sole line of defense for French finance, the Bank of France also needed to remain in the shadows due to ongoing fiscal demands from the state. The Bank's hoard of gold was also envisioned as a fund for the French state: both to finance its domestic initiatives and its diplomacy. Foreign ventures such as military campaigns and colonialism could always depend on the Bank for support. French colonial policy revolved around channeling liquidity to develop the colonies. French diplomacy and foreign ventures too were prime targets for lending. The Bank continued to see itself as the ultimate repository for War and foreign affairs (Feis 1930, p. 123, U.S. Congress 1910a, p. 151).[10] As these activities were extensive in the latter-19th century, with France continuing to take on a greater international role, the pressure on the Bank to protect its reserves grew all the more intense. Furthermore, in addition to providing liquidity, French finance came be used both as carrots and sticks in pursuing France's global goals (Des Essars 1896, p. 67).

Domestically, the Bank saw itself playing crucial direct and indirect roles in the economic development of France. Directly, it always stood ready as an official lender to the state, and this remained a consistent priority from its earliest years. Indirectly, it was always ready to support large investment banks which were heavily invested in state infrastructural projects. This facilitator role grew all the more across the century, especially under the Saint Simonian orientations of Napoleon III and his successors (Wilson 1957, pp. 265-70; Des Essars 1896, p. 66; and Kindleberger 2000, p. 468).

In sum, the Bank of France worked hard to avoid supplanting the Bank of England on the international financial pecking order. Being number two allowed it to remain in the shadow and avoid the very front line of defense in the event of international financial crises. This humility fundamentally cuts against the logic of hegemonic stability theory. In the coercive strand of the theory identified by Snidal (1985), which is grounded strongly in a Realist orientation, the hegemon derives significant benefits from its preponderant position. Moreover, the hegemon can further increase its net benefits from the system by redistributing the costs of regime maintenance to other actors. Hence, there is no incentive to compromise that position, nor is there an incentive for aspiring hegemons to forego the possibilities of ascension (Keohane 1980, p. 137). But even in the benevolent strand of the theory inspired by Kindleberger (1986), there are also disincentives to forego ascension. Specifically in a relative power context, foregoing such ascension may mean that the regime or system will lack the requisite resources or public goods to remain stable, especially if the current leading power is declining. In fact, Kindleberger's (1986) celebrated diatribe against U.S. reluctance to bear hegemonic responsibility during the Great Depression is a testament to how such a public-goods logic assesses the abdication of hegemony by aspiring powers.

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[10] Unlike the Reichsbank, the Bank of France held no separate war account, hence in theory such foreign ventures had a claim to a far larger amount from the latter (U.S. Congress 1910b, p. 294).

IV. Preliminary Contributions Toward a Theory of Leadership by Secondary Powers

Drawing on this case study of the Bank of France may be helpful in providing some preliminary building blocks which can contribute to developing a more systematic and generalizable theory of monetary leadership by secondary powers. Such building blocks would be especially useful in conjunction with the revisionist literature in hegemonic stability theory which envisions collective procurement of public goods and leadership on the part of secondary powers in that context.[11]

The French case suggests that secondary powers can be effective in stabilizing a monetary regime if they take a pre-emptive or preventive posture in eradicating smaller disturbances in major financial centers (i.e., preventive maintenance). Their relatively limited resources and powers to persuade accord well with the need for limited resources, which will be sufficient to quell early and smaller disturbances. This financial intermediation role played by the Bank of France fit more into the style of lubricator (i.e., an early strategic lender) rather than hegemonic guarantor in last resort.[12] France employed such an early warning system effectively, given its vigilant monitoring of conditions in London, which brings up an interesting category of non-hegemonic leadership: that the activation mechanism for intervention emanates from relative weakness rather than relative strength. In this case, the incentives espoused in traditional hegemonic stability literature may have to be significantly tilted: a preponderant financial power with a domestic orientation (as the Bank of England proved to be) can act insensitively and with impunity given that they will be more insulated from international disturbances due to their power to attract capital in crisis. Conversely, secondary powers will be victims of international crises as their capital will be pulled to markets which are higher in the pecking order. These differing positions in the financial hierarchy will have predictable results for the respective orientations of these powers: preponderant powers can be more complacent in the face of international disturbances, secondary powers do not have that luxury. Hence, relative weakness in influencing capital flows can lead to greater intervention. This intervention would be more aptly labeled as a type of *limited lender of first resort*, rather than the conventional Bagehotian vision in the monetary hegemony literature which espouses an unlimited lender in last resort. But the case of France throws a further twist into hegemonic stability theory in this context: France preferred to lead under less severe conditions than be the leader in full-blown crisis conditions which would inevitably tax its resources to the point of imparting great instability onto French finance. So in a paradoxical sense, France's leadership style suggested a reluctance to lead (i.e., pre-

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[11] The revisionist literature on collective procurement (Lake 1983 and 1988 , Kindleberger 1981, Gilpin 1987, and Snidal 1985) tends to fall short in exploring the crucial role of leadership in those collective arrangements. Revisionist contributions which do account for such leadership (Keohane 1984 and Alt, Calvert, and Humes 1988) require more historical case study of non-hegemonic leadership and further systematic elaboration on the structure of such leadership behavior.

[12] This suggests that secondary powers must play more of a proactive leadership role than a hegemon, which can play a more reactive role.

emptive leadership was orientated around attempts to abdicate from true hegemonic functions).

In terms of management style, it is clear that secondary powers will more likely have to depend on persuasion and perspicacity to effect stabilizing functions than would a preponderant power. The Bank of France played this role well. It established good working relationships with both public and private banks which could be drawn upon when consortia were required for special accommodations. It was masterful in choosing among a variety of accommodation styles so as to maximize its effectiveness in delivering viable alternatives for hegemonic financial intermediation at an international level. With respect to setting rules of behavior, the Bank neither dictated nor forcefully promulgated rules or expectations regarding inter-bank lending. The conventions regarding inter-bank cooperation were more a function of ongoing ad hoc practices which seemed to converge around various modes of financial intermediation. If anything, the Bank of France encouraged by example and facilitated cooperation through its perspicacity rather than its power. In this respect, the case suggests that rather than requiring a set of formally constructed and systematic rules of financial stabilization, as envisioned by traditional theories of hegemony , a situationally-driven set of actions can suffice to promote stability in a regime.

The variety in the Bank of France's intervention style demonstrates four kinds of leadership roles. First, it was the sole or the preponderant contributor in some schemes of accommodation (1825, 1906, 1907, 1909-1911). Second, it was a somewhat lesser contributor in others (1836, 1839, 1890). Third, in the latter cases of accommodation it tended to be an animated orchestrator of the lending operations. In this sense it served similar functions to a leader in promoting collective contributions. A fourth type of leadership can be considered more indirect: insofar as its activities promoted stability in the very core of world finance (Britain), it can be said that the Bank of France effectively served as a supporter of the indirect stabilization functions of British finance. Even though neither the British state nor the Bank of England demonstrated any commitments to maintain order in the greater international financial system, by maintaining open capital markets, British actions were instrumental in preserving convertibility. In this role, the Bank of France functioned as a financial supporter for the nation with hegemonic influence by keeping London stable. Hence, France played a very unconventional support role in this respect. This opens up interesting possibilities for conceptualizing assistance in a hegemonic regime.

The role of the Bank of France in engineering crisis lending carries implications for some major functions normally ascribed to monetary leaders: creating confidence, promoting countercyclical lending, and maintaining open markets for distress goods (Kindleberger 1986, pps. 11, 289 and Cohen 1977, p. 37). With respect to all three functions, French actions served a more indirect, albeit crucial, role. Helping to maintain financial stability in the very core of the system imparted greater confidence onto the rest of the financial system, which depended on the flow of liquidity through the core. Concomitantly, the confidence and open capital markets assured that liquidity was generally available. Hence, there were no impediments to countercyclical flows of capital.

Finally, given that adjustment could take place easily and quickly, as short-term capital flows accounted for the principal adjustment mechanism under the gold standard, greater pressures to restrict trade (and consequently distress goods) due to adverse movements in balances of payments were abated (Gallarotti 1995, p. 35). This suggests that secondary powers can be effective stabilizers if some of their functions carry manifold consequences for other functions. This will most certainly be true in monetary relations, where systems tend to be complex and tightly-coupled systems in which actions have manifold feedback effects. If modest loans can in fact be strategically orchestrated and they generate positive feedback for other stabilizing functions (e.g., enhance confidence which in turn enhances countercyclical investment), then they may have stabilizing consequences far greater than their magnitude. Hence even limited power resources may be sufficient to stabilize regimes. A summary of non-hegemonic monetary leadership as it compares to the standard vision of monetary hegemony is presented in Table 1.

Some caveats are, of course, in order. In the case of France, the 19th and 20th centuries have shown quite a variation in its leadership orientations. The French state was very much a leader in the quest for monetary unification in the latter-19th century, yet it was the Bank of France largely functioning independently of the state which took on the role of international financial stabilizer. But even in its stabilization functions, there were elements of spoiler activity in competing with other central banks in amassing its hoard of specie. Hence, there were striking elements of inconsistency even in the Bank's most enlightened role. During the interwar period, of course, the French state often played the role of spoiler (Kindleberger 1986). This inconsistency in French disposition regarding the international monetary system is perplexing with respect to finding factors which can be isolated as a source of French motivations: an important element of any systematic theory of international leadership.

Furthermore, in terms of alternatives to hegemony, this case begs an important question, When can secondary powers serve as substitutes for hegemons? This of course depends on the conditions within the regime. In a more stable regime like the gold standard, a secondary power can effectively promote stability (both alone and in conjunction with supporters) as the capacity of secondary powers is commensurate with the number and size of the disturbances, as the case of France demonstrates. This of course will not be true in an inherently less stable system. It would appear that hegemony will be superior to secondary-power leadership in both cases, primarily because the greater resources of hegemons will not only allow them to provide more public goods unilaterally, but the same superiority of resources will make them better able to persuade others to contribute. Moreover, much will depend on the issue. In issues where relations are perceived as closer to zero-sum, both unilateral provision and collective stabilization will have to be greater than in systems where relations are considered to be more positive-sum. But even here, stability as a function of power depends on the present equilibrium. From a favorable equilibrium, for example, even an inherently unstable system may be stabilized by a secondary power if that leader intervenes religiously at early stages of crises. Of course, inherently unstable systems may generate more initial disturbances, which make the demands on leadership all the greater. The gold standard was fortunate in that, unlike

the mid-19th century and the interwar period, it was faced with relatively few and non-severe financial crises.

In addition, it is not clear that hegemons will generally have a greater tendency toward complacency, as the British did under the gold standard. In the case of the gold standard, as well as other issues, there are a number of incentives encouraging hegemonic powers to stabilize the regimes in which they function. Most obviously, and consistent with the public goods logic of conventional visions of hegemonic stability, as leading powers in a regime, hegemons have the greatest vested interest in preserving that regime. Although the Bank of England and the British state acted in a fairly complacent manner with respect to responsibilities of monetary leadership under the gold standard, British and American public documents of the period make it clear that both faced significant incentives to do otherwise (Great Britain 1876; Great Britain 1888; and U.S. Congress 1877, Vols I and II).

Notwithstanding such caveats, the implications of this case may be useful in constructing a broader theory of leadership by secondary powers. In this respect, this article builds on previous work by Alt, Calvert, and Humes (1988) and Keohane (1984) which do provide a vision of leadership regarding how nations can facilitate collective stabilization. However, their leaders are still largely envisioned as hegemonic powers (i.e., hardly secondary powers) which expend large amounts of resources to impart a cooperative orientation among other nations.

Specifically in the context of monetary relations a number of scholars have underscored the importance of building such a theory of non-hegemonic leadership by highlighting the efficacy of such a leadership role in bringing about the sort of economic coordination that could substitute for hegemony. Cohen (1977, p. 251), Kindleberger (1993, p. 276), and Cooper (1987, p. 194) suggest the possibility of cooperation among a consortium of smaller central banks organized around a price leader as a substitute for a larger hegemonic lender of last resort. Williamson and Henning (1994) see the maintenance of fixed and target-zone exchange rate regimes as depending on active price leadership in supporting any given parity, but such leaders need not be preponderant powers. Bergsten and Henning (1996, pp. 68-77) aver that in all important dimensions of economic cooperation within the OECD, leadership will be a crucial factor; but this leadership will be dynamic, with leadership changing (both stronger and weaker nations) because of the dynamic nature of diplomacy within the G/8. Gallarotti (2001), Eichengreen (1990), Frieden (1993), and Reti (1998) have all analyzed leadership within the context of international monetary regimes. In a more general context, Young (1983) suggests that regimes which are stabilized collectively can function as well as hegemonic regimes provided a lesser power can effectively serve the functions of a price setter.

The historical literature on monetary hegemony reinforces the efficacy of such a leadership theory by demonstrating that unilateral stabilization has been overrated in the history of international monetary relations. Eichengreen (1990 and 1992) and Frenkel, Goldstein, and Masson (1996) have showed that supposedly hegemonized international economic systems have relied far less on the unilateral provision of hegemonic resources and more on coordination among nations and central banks, with the hegemons serving

mainly as price leaders with respect to reinforcing coordination. Conversely, when hegemony supposedly failed, as in the interwar period, the real problem was a lack of cooperation rather than the inability or unwillingness of great powers to support the system. Eichengreen (1990 and 1992) goes so far as to say that no nation was powerful enough to stop the Great Depression, but that a viable solution required effective cooperation among nations and central banks. Solomon (1982) concurs with respect to stability under the Bretton Woods system, which he attributes to coordination on monetary policies. While price-setting functions were largely played by hegemons in these accounts, such was not always the case. Hence, secondary powers also played important roles as leaders.

V. Conclusions

This article has offered an alternative to both life before as well as after hegemony. An overemphasis on the role of preponderant power has led to a vision of regime stability (i.e., hegemonic stability theory) that is neither historically common (hegemons are rare), theoretically sound (as hegemony can have substitutes), nor historically accurate (as the role of hegemons has been overrated). The case of the Bank of France, in fact, significantly tilts the theory of hegemonic stability by suggesting that relative weakness rather than strength can catalyze regime leadership. That the Bank could play an effective leadership role in promoting stability under the gold standard highlights the possibility that stability in international relations is not exclusively dependent on the actions and resources of preponderant powers. Indeed, the kind of leaders that can promote order can themselves be secondary powers which are relatively fragile vis-a-vis principal powers. Such possibilities involving the viability of non-hegemonic leadership will make both scholars and practitioners alike more optimistic about the potential for order in the international political economy.

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Table 1: Conventional Leadership Functions of Monetary Hegemons Versus Leadership Functions of Secondary Monetary Powers

Function	Conventional Hegemon	Non-hegemonic Leader
Trigger Mechanism for Stabilization	Either rising absolute (benevolent strand) or rising relative (coercive strand) power	Relative weakness in influencing international capital flows
Lending and Liquidity	Larger-scale lender in last resort; Unconditional access to one large pool of liquidity; The hegemon lends directly to nations or banks in need	Smaller-scale lender of first resort (i.e., pre-emptive or preventive intervention); Conditional access to various smaller pools of liquidity; The leader both lends directly and serves as a price leader in organizing lending consortia
Crisis Lenders	One or more public (nations or central banks) institutions	Multiple actors which include both public and private institutions; Strongly dependent on cooperation
Rules for Crisis Lending	Rules are systematic, consistent, and clearly stated in advance; They are dictated and maintained by hegemon;	Conventions rather than formal rules; Initiated and carried out in an ad hoc manner by perspicacity and persuasion rather than by force or authority; They vary from bailout to bailout
Mechanism Which Abates	Penalty rates or	Absence of formal

Moral Hazard	**conditionality**	**commitments to lend in last resort; Conditional and ad hoc crisis lending**
Confidence	**Created from above: hegemon makes its own resources available**	**Created from below: domestic monetary orthodoxy keeps nations on trajectories of low inflation, thus preserving convertibility; Leader reinforces this sanctity by working to create conditions that encourage nations to maintain convertibility**
Countercyclical Lending	**Direct hegemonic function of engaging in countercyclical lending**	**Indirect leadership function of encouraging other nations to maintain open capital markets**
Distress Goods	**Free trade for hegemon**	**Indirect leadership function of encouraging others to trade freely**
Nature of Stabilization Functions	**Direct**	**Both direct and indirect**