J. Lawrence Broz, "The Domestic Politics of International Monetary Order: The Gold Standard" in Contested Social Orders and International Politics, ed. David Skidmore. 1997.

Short summary:

The stability of the nineteenth century international monetary system was maintained not by a single hegemonic state, nor by a cooperative agreement between several states with homogenous preferences. Instead, it was the result of specialization of tasks (providing a stable international unit of exchange, serving as lender of last resort) between different states. Moreover, this specialization was determined by the composition of domestic interest groups in each state.

Longer summary:

What explains international monetary system stability?
1. Hegemonic stability theory. One state will acquire a large enough share of the benefits from maintaining a stable international monetary system that it voluntarily absorbs the costs of coordination.
2. Functional theories of international regimes. In the absence of hegemony, states create international institutions to ensure cooperation.
3. Domestic-international "virtual circle" theory. Non-participant governments are lured by welfare gains to participate in the system. Domestic actors that compete with foreigners who benefit from the regime encourage their governments to participate, as well.

These explanations fail because they assume homogenous preferences among states, which is empirically unjustified. We need a theory that explains stability based on heterogenous preferences among states. Broz argues that even if domestic interests give rise to different state preferences, this may lead different states to specialize in different tasks necessary for stability.

Some domestic actors prefer fixed exchange rates because they reduce the risk of international trade and investment (export-oriented producers of tradable goods, international merchants, global investors). Others prefer flexible rates because fixed exchange rates tie the government's hands on monetary policy (import-competing producers of tradable goods, producers of non-tradables). All actors will include in their calculation the potential benefit of a stable international monetary system, but this will be a second order consideration stability is a public rather than a private benefit.

As a result, states will vary in their exchange rate policy, but each will play a role based on their policy in maintaining stability. Stability requires both 1) one or more key currencies that can be converted abroad, and 2) one or more lenders of last resort who are willing to lend to other governments during financial crises. A state that strongly prefers fixed rates will provide a key currency because holders of that currency are reasonably certain that the value of that currency will not change. A state that strongly prefers flexible rates because it wants control over its monetary policy in order to reduce the impact of foreign economic shocks on its economy will also provide a lender of last resort role because this also reduces the impact of foreign shocks. Thus the result of heterogenous domestic preferences is specialization in the tasks that contribute to international monetary stability.

Empirical analysis:

England strictly adhered to a fixed rate gold standard in the nineteenth and early twentieth centuries, thus providing a key currency. But the main reason they stuck with gold was the alignment of land, the City's merchant banks and acceptance houses, and creditors of the government. Note that the landed aristocracy leased out their land, so they were more interested in high interest rates and low inflation (as opposed to farmers who would have been happy with higher commodity prices and lower lease payments). [Never mind that throughout this literature that there is a huge problem with conflating flexible exchange rates with high interest rates and low inflation and vice versa]. Financial institutions benefited from reduced currency risk, a higher-valued currency, and the business they received because other currencies were less stable. Government console holders (bondholders) managed to lock in very high rates during the

Napoloeonic Wars, so they mainly wanted inflation to stay low to maintain the purchasing power of their coupon payments (as opposed to taxpayers who had to finance this debt).

France had a gold standard, too, but in practice they used capital controls and discretionary rules to keep gold in the country and build up a massive reserve. They used this reserve to stabilize domestic monetary policy, but they also had it on hand to serve as lender of last resort to both England and the United States during significant economic shocks. France had a monetary policy orientation because (unlike England) landowners were more likely to be small and work their own land (no landed aristocracy), and finance and industry were smaller and more domestically-oriented.

Germany's gold standard was not enforced, either. They also intentionally built up a large gold reserve that was used to stabilize domestic monetary policy and to lend abroad during foreign financial crises. Germany's monetary policy orientation was the result of an alliance between Junkers who controlled large land-estates (as in France, they farmed the land they owned), and financial and industrial leaders who looked more to one another for the bulk of their business than they looked abroad.