

Volume II

The Heyday of the Gold Standard, 1820-1930

1925 August 21

Decree-Law Creating the Central Bank of Chile, 1925. The dominance of Britain and the United States in terms of trade and finance led many countries to arrange for the exchange of their currencies and notes for gold through banks in London and New York City. This excerpt is from Chile and includes two articles that indicate this practice.

[...]

Article 69.

Notes of the Central Bank shall be payable to bearer on demand at the head office of the Bank in Santiago, and payment shall be made in any of the following forms at the option of the

(a) In Chilian gold coins of the weight and fineness provided for in the monetary law;

(b) In gold bars of approximately 100 % fineness and of weight not less than 500 grammes;

(c) In demand drafts or three-days-sight drafts on London or New York payable in gold and drawn on funds deposited in banks of high standing in those cities. The premiums charged by the Bank above the gold par of the Chilian gold peso as compared with the gold pound sterling and the gold dollar respectively shall not exceed the sum necessary to cover the cost of shipping gold bars in bulk from Santiago to the foreign centre on which the drafts are drawn.

[...]

Article 71.

To avoid appreciation of the monetary unit above the gold value stipulated in the monetary law, the Central Bank of Chile shall at its head office in Santiago pay out its own notes in exchange :

(a) At par for unworn gold coins of the Chilian Republic; or for coins minted after the promulgation of the present law and not worn below the limit fixed by law; or at the rate of one peso in bank-notes for 0.183057 gramme of fine gold for other gold coins of the Chilian Republic;

(b) For foreign gold coin or its equivalent in paper money payable on demand, and deposits payable on demand in the same coin, also at the rate of one peso per 0.183057 gramme of fine gold, provided the said deposits have been

Volume II

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credited to the account of the legal reserve of the Central Bank of Chile in banks in London or New York where the said Central Bank maintains reserves of that kind.

On paying out notes in Santiago against gold deposits abroad, the Bank shall be entitled to charge a premium equivalent to the cost of shipping gold in bulk from the foreign city concerned to Santiago, plus the costs that will be incurred for minting the said gold into Chilian coin at the Santiago Mint and the interest accruing during the time of transit.

Source: League of Nations. 1930. Legislation on Gold, (Geneva: League of Nations), p. 189. [League's translation]