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The Heyday of the Gold Standard, 1820-1930

1924 August 30

Bank Law [Germany], 1924. After the period of tremendous hyperinflation (1922-1923), the German Government re-organized its finances and issued a currency backed by all the land and industry owned by the Government. This was replaced with a gold guarantee contained in the Weimar Republic's Bank Law, excerpted below. The German Reichsbank was obligated to maintain a 40% gold cover for the currency in circulation.

[...]

Article 22.

The Reichsbank is under obligation to take bar gold at the fixed rate of 1,392 Reichsmarks for one pound fine in exchange against its notes.

The Bank is authorised to cause such bar gold to be examined and assayed by any technical experts to be appointed by the Bank in that behalf, at the vendor's expense.

Article 28.

The Bank shall be compelled to keep at all times in respect of its notes in circulation :

(a) A cover of at least 40% in gold or "Devisen" (gold cover). This cover must at least as to three-quarters consist of gold.

The expression "gold" within the meaning of this direction connotes bar gold as well as German or foreign gold coins (the pound fine being calculated at 1,392 Reichs marks) in so far as such gold is in the possession of any office of the Bank or deposited with any foreign central note-issuing bank in a manner to be at all times at the free disposal of the Reichsbank.

"Devisen" are bank-notes, or bills of exchange having not more than fourteen days to run, cheques and claims due from day to day payable in foreign currency by a bank of known solvency in foreign financial centres. They are to be taken at their gold value for the time being;

(b) For the remaining amount, discounted bills of exchange or cheques satisfying the requirements specified in Article 21.

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Article 29.

In exceptional circumstances the cover referred to in Article 28 under (a) may be reduced below 40% on the proposal of the Managing Board by a resolution of the General Board; such a resolution of the General Board requires unanimity except as to one vote.

In the case of such a reduction of the cover extending over more than one "Bank return week", the Bank has to pay to the Reich in respect of the amount by which the prescribed cover of 40 % falls short a percentual note tax computed in accordance with the following directions :

In the case of a cover between 37 and 40% : 3% per annum;

In the case of a cover between 35 and 37% : 5% per annum;

In the case of a cover between 33 and 35% : 8% per annum;

In the case of a cover of less than 33 % : 8% per annum, with the addition of 1 % per annum in respect of each 1 % by which the percentage of the reserve falls short of 33 %.

The rate of discount must in any case in which the cover during a bank return week or during a longer period remains uninterruptedly below 40% amount to at least 5%.

Whenever a note tax is payable the rate of discount shall be raised by at least one-third of the percentage of the tax which is payable, and this increase shall be in addition to the increase of the said rates of discount required for the purpose of satisfying the requirements of the third paragraph of this section.

[...]

Article 31.

The Bank is under obligation to pay its notes to the bearer thereof :

(a) At its principal office in Berlin immediately on presentation;

(b) At any branch establishment in so far as its available cash and its cash requirements admit of such payment

Payment at the Bank's option may be made :

1. In German gold coins of the weight and fineness authorised by law for the time being at their par value;
2. In gold bars in pieces of not less than 1,000 Reichsmarks and not more than 35,000 Reichsmarks, at their value in pure gold in German gold coins of the weight and fineness authorised by law for the time being,
3. In cheques or orders to pay in foreign currency equivalent in value to the market value of the currency concerned in the matter as expressed in gold. The "Satzung" enumerates the foreign banks on

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which the cheques 01 orders to pay may be drawn. The Reichsbank may in such a case charge a commission. The said commission may, however, not exceed the amount representing the share apportionable to the amount paid in the cost of transmission of larger sums of gold to the place of business of the foreign bank concerned in the matter, together with interest.

[...]

Article 35.

In addition to the cover of its note issue provided for in Article 28, the Bank shall at times hold a special cover of at least 40% of the liabilities falling due from day to day; this cover must consist of deposits at call (money due from day to day) in Germany or abroad, cheques on other banks, bills of exchange having not more than thirty days to run or claims recoverable at call arising from debts covered by pledges.

The requirements as to special cover provided for above shall not apply to the account opened by virtue of Article 26 (reparations account).

[...]

Article 52.

The date for the coming into force of this Law shall be determined by the Reich Government. The coming into force of the rules of Article 31 requires in addition concurrent resolutions of the Reichsbank Managing Board and of the General Board. Such resolutions are to be published in the *Reichsgesetzblatt*. Up to that date the rules contained in Article 2 of the Law of August 4th, 1914 (*Reichsgesetzblatt*, page 347) concerning Reichskassenscheme and bank-notes, shall remain in force, in so far as it relates to Reichsbank notes.

Source: *League of Nations. 1930. Legislation on Gold*, (Geneva: League of Nations), pp. 233-234. [Official translation of the German Government]