

## APPENDIX.

### MEMORANDUM ON THE CONSOLIDATION OF PROVINCIAL LOANS.

THE project for the Consolidation of Provincial Loans has deservedly been popular for some time past. No argument is necessary to show that if carried out successfully it will lead to the most beneficial results to the credit of New Zealand in financial circles in Great Britain, but while it is so desirable, it is at the same time a delicate operation, requiring careful management and a due regard for all the interests involved. It is submitted that the proposals of the Government, as contained in the two Bills before the House, will not meet all the requirements of the case; if they are adopted by the Colonial Legislature great injustice will be done to some of the holders of the Provincial Bonds, and a breach of faith will be committed towards a class of persons powerful enough to make their influence felt in the London money market and in the Colony. The two Bills now before the House propose to give the General Government—

- (1.) Power to buy up for cash or to exchange Provincial Bonds already issued for General Government Bonds.
- (2.) They prevent the issue of any further bonds of the Provincial Governments, and require the General Government to complete the issue of all authorized and unraised Provincial Loans.
- (3.) They give the General Government a first charge upon the Provincial Revenues for Interest and Sinking Fund on all Provincial Bonds, which they may buy up or obtain in exchange, and for all General Government Bonds which may be issued in substitution for unraised Provincial Loans.

The main difficulties in the way of the Government proposals appear to be as follows:—

1. It is highly objectionable to allow agents in England so large a discretion as must necessarily be given to them if the provisions of these Bills are adopted—what may occur can readily be imagined—to enable the agents successfully to purchase any number of the bonds various prices must necessarily be fixed and given as the debentures of each Province vary in price in the market, while they are all equally valuable to the General Government in carrying out its policy of consolidation; fixing and buying at different prices will lead to suspicions of unfairness and partiality very difficult to disprove. The idea that Provincial Bonds may now be purchased at low prices because some of them sold at low prices is not well founded; when some of the Otago Bonds were sold they only realized £70, but they have long since changed hands, and some are now held by those who have paid £90 and even more for them. (They have been lately quoted at £95). Moreover when the Otago Bonds were sold representations were made on behalf of the Provincial Government of Otago that the guarantee of the General Government would ultimately be given to the bonds, and the holders have thus been led to expect it and are entitled to any benefit accruing under it. It is objected as unfair to allow the holder of a Provincial Bond for which he gave £70 to get £100 for it, and it is proposed to offer him £80 as a sufficient profit, the remainder is considered to be the profit which the General Government is entitled for its guarantee. It is very doubtful if there are any of the present holders who bought at so low a price as £70, but it is an unfair and unworkable principle to fix the price relatively to what a bondholder gave. If one buys at £70, another at £80, and the price is fixed relative to those prices so as not to leave him too much profit, what can be offered to the person who gave £103 for his £100 bond, and that price has been paid for some of the Provincial Bonds.

2. The General Government have no right to interfere with or alter the present securities of the Provincial Bondholders. The revenue of the Colony under the Surplus Revenues Act is divisible among the Provinces after taking out of it the appropriations made by the General Assembly. This Act was law when the bondowners lent them money, and the General Assembly cannot alter it without indemnifying the bondholders.

3. The measures now proposed give a preferential claim to the General Government for all bonds they may buy up or issue to the prejudice of the bondholders who refuse to accept the prices offered by the General Government, *vide* sections twelve and thirteen Consolidation Act, and forty-four Revenues Act. Before tracing the practical effect of these proposals, it is proposed to show that the Government have no right to take this preference.

The Royal Instructions to His Excellency Sir George Grey, dated 12th August, 1861, directs His Excellency to reserve for Her Majesty's assent "Any Bill of an extraordinary nature and importance, whereby Our prerogative or the rights and property of Our subjects not residing in the Colony, or the trade and shipping of the United Kingdom and its dependencies may be prejudiced." Under this clause of the Royal instructions, it is submitted that His Excellency could not assent to the Bills now proposed by the Government, and they would probably be disallowed at home. In 1860 Lord Carnarvon writing to Governor Browne upon the New Provinces Act, the effect of which (in relation to the creditors of the Province of Wellington) had been objected to, said "now, whatever may be the equitable rights *inter se* of the old and new Province (.....) it is clear that the creditor who lent his money on security which the borrower had at the time of the contract a right to pledge, ought not to be deprived of any part of that security by any subsequent Act of the General or Provincial Legislature. Indeed, if such a transaction were allowable, the whole substance of his security might be gradually abstracted by successive divisions of the Province which borrowed the money."