

1889.

NEW ZEALAND.

AUSTRALASIAN 3-PER-CENT. CONSOLS STOCK

(LETTERS FROM MR. WILLIAM WESTGARTH RELATING TO A PROPOSAL BY HIM FOR INAUGURATING AN).

Laid on the Table by the Hon. Sir H. A. Atkinson, with the Leave of the House.

No. 1.

Mr. W. WESTGARTH to the Hon. the COLONIAL TREASURER.

DEAR SIR,—

“Zealandia,” s.s., 8th September, 1888 (one day from Auckland).

I have the pleasure to enclose to you the copy of a paper I have just prepared for the Hon. Mr. Burns, the New South Wales Treasurer, and which I promised to draw up for him after an interesting discussion about changing the colonial issues from 3½ and 4 per cent. to 3-per-cents. My object was chiefly to show what might be the best way of effecting this important object.

Mr. Burns I have asked to send copies of this document to the Treasurers respectively of Victoria, South Australia, Queensland, and Tasmania.

I expect to arrive to-morrow at Auckland (Star Hotel), and within three days to be in Wellington, when I shall do myself the pleasure of calling upon you.

To the Hon. the Treasurer of New Zealand.

I am, &c.,

W. WESTGARTH.

P.S.—Auckland, 10th September.—I hope to be in Wellington on Friday evening, *via* West Coast, at the Empire Hotel. I am sorry to have to leave on Monday for the South, in order to be at the Bluff for the steamer to Melbourne on Thursday week.

No. 2.

MINUTE prepared by Mr. WESTGARTH for the Hon. J. F. BURNS, Treasurer, New South Wales.

CANADA successfully inaugurated 3-per-cents for the colonies in the London market when she sold, last June, £4,000,000 of that stock by public tender at upwards of 95½ per cent. As the minimum price had been fixed at 92 per cent., the result shows that the loan had been received by the public better even than the issuers had expected.

That an Australasian Dominion 3-per-cent. would sell at the least as well as that of Canada may be inferred from the fact that, until within the last ten years, when federated Canada and the importance of her newly-opened Great Pacific Railway had brought her more to the Empire's front, her loan-issues were lower in the London market than those of Australia. They were then as much lower, in fact, than those of New South Wales and Victoria as they are now higher.

But, supposing that, as both Sir Henry Parkes and Mr. Burns surmised, the separate Protection system which most of the other colonies seem bent on instituting, each for itself, should delay or even thwart the intercolonial federation, we might, for the time, fall back upon the suggestion of Sir Thomas McIlwraith that the colonies might federate as to loan-issues. Each colony, as Sir Thomas remarked to me, must surely feel as to the others that, however much or little they may borrow, they will all punctually and fully meet their engagements. This partial course would not have the full effect of a political confederation in raising the value of their stocks; but if the loans were issued under some form of common authority there would certainly be a substantial approach to such value, especially as there would be also an impression that the full and final step could not be far off.

But, again, supposing that even this could not be early arranged, let us consider what might be the best course if still obliged to continue separate and independent action. I have repeatedly explained that, in loan-issues, simplicity of form, and uniformity, should always be aimed at. Investors' memories should not be charged with more details and differences than possible; and consolidation and uniformity should be the rule, for the sake of the greater negotiability which one large stock has over many different and small stocks.

Applying these principles, the colonies, if compelled still to go on separately, will greatly help one another by each issuing these proposed 3-per-cents in exactly the same form—especially the same term of currency and the same interest-dates. The issues should all be inscribed, and, if possible, all in the same way.

I attach great importance even to this seemingly slight approach towards intercolonial federation. It will certainly promote the latter, and no doubt the Home public will so view it; while each stock-is made more marketable, as part, more or less nearly, of a great total. The Home investor would, in fact, accept such first step as indicative of intended after-completion, when the stocks now separate could be easily transformed into one joint and several or federal security. Indeed, I estimate that this step alone would add from 2 to 5 per cent. to the issue-price realised, all the colonies benefiting, although the weaker or smaller more, no doubt, than the stronger.

With regard to terms of currency, I am decidedly of opinion that the time has come for irredeemable stocks. This preference in regard to colonial stocks on the part of investors has been immensely strengthened of late by Mr. Goschen's prospective early abolition of British 3-per-cents. The great approaching void which investors already feel and are preparing for affords a special opening for this proposed colonial 3-per-cent. stock, and these colonies should not delay to fill it up, as otherwise not merely other colonies, like Canada, but sundry foreign rivals may but too promptly precede them. The great multiplication of trusts decidedly weighs in favour of the irredeemable, as they can always sell in the market when that suits them, but do not like compulsory repayment.

I therefore conclude for an irredeemable stock. Perhaps we are not to expect that money, for many years hence, at least, can be lower to the colonies than 3 per cent. However, as some may expect otherwise, seeing how steadily money falls in its rate in taking long intervals, I think that each colony might, without damaging its loan prospects, reserve to itself an option to pay off after some considerable interval. There might be fifty or a hundred years, with six months' notice, the loan to go on failing notice.

But I prefer not to be too positive as to the irredeemable, especially as the present strong bias for it is only of late years. I therefore advise that, while powers are taken for either course, the point be referred to the Agents-General in London and the competent banking agents there employed.

There are two great advantages to the colonies in passing, as proposed, into 3-per-cents: first, the relatively much higher price to be got for the new stock; and, second, the substantial profit that may be made by the conversion, on fair terms to both sides, of all the great mass of outstanding higher-interest-bearing stocks. These now amount in all to £150,000,000. It is impossible, of course, to secure for the colonies the whole, or even nearly the whole, of the great rise in value which these outstandings would acquire by the complete cessation of their further issue, together with the successful issue at a relatively very high price of a consolidated 3-per-cent. as the stock of Australasia's future, but I estimate that it would not be less than an average of 5 per cent.

Let us now pass from theory to action. The usual and, indeed, speaking generally, the best way to bring out a lower-interest stock, where a conversion of the higher-interest outstandings is also in view, is to issue some substantial amount of the proposed stock as a marketable basis, and then to open the conversion. The only colony immediately requiring a loan so as to effect this beginning is Tasmania, and for only £1,000,000. If Tasmania could wait for a second colony, such as Victoria, which may require, perhaps, a million and a half or two millions ere very long, a more effective beginning of the grand future stock would be made—more noticeable to the public eye, and with more promise about it of the future federation. Tasmania, in such company, would thus get, probably, 91, instead of 89, while Victoria, not altogether unhelped by smaller Tasmania, might get 93.

These are initiatory values, and rather lower than to be afterwards looked for. New South Wales, as Mr. Burns remarked, would not likely require a further loan for some long interval. She might, however, see her opportunity to offer earlier a conversion of her very large outstandings as the alternative to waiting till her next loan. In the first case she would likely buy up the outstandings cheaper; in the latter case she might have to pay higher for them, but, on the other hand, would get a higher price for the new issue.

Lastly, I do not doubt that ere a very few years after the first emissions this stock, if to be that of the Australasian future, will rise to that coveted status, par.

S.s. "Zealandia," to Auckland, at sea, 7th September, 1888.

W. WESTGARTH.

No. 3.

Mr. W. WESTGARTH to the Hon. the PREMIER.

DEAR SIR HARRY ATKINSON,—

Wellington, 17th September, 1888.

With reference to the paper I lately drew up for the Treasurer of New South Wales (of which you received a copy), explaining the great—indeed, enormous—advantage of consolidating all the loan-issues of these colonies into one great and uniform stock, I would now go a step further in the practical direction of estimating the price or value of the colonial stocks as they approach towards the goal I have indicated.

The question I have based upon is the substitution of a 3-per-cent. stock for the present 4-per-cents and 3½-per-cents, so as to take due advantage of the great opening which Mr. Goschen's late operation in substituting 2½-per-cents for 3-per-cents in the Imperial funds has left for these colonies.

There are difficulties—chiefly from Protection tariffs of the separate colonies—in federating together like the Canadian Dominion. But, until this can be done, these colonies might federate financially, or, if even that involved still some difficulty and delay, they might agree for the present to issue an exactly similar 3-per-cent. stock in each separate case.

On the other side is a table I have prepared showing the price your stocks would probably bring in the London market, according as you were able to approach the complete unity and uniformity of issue.

In this table the five columns A to E represent as follows:—

- A. The price a 3-per-cent. would bring to each colony if issued quite separately and unconnectedly, as the colonies hitherto have issued their loans.
- B. The price if they agreed in issuing a stock uniform in all respects, except that each colony was responsible only for its own issue.
- C. The price if a financial federation could be achieved, so as to make but one and the same stock.
- D. The price if the federation were politically complete.
- E. The price to which the D stock might be expected to rise after some interval—say two to three years from the first issue—to accustom investors to the stock, and secure their adequate confidence.

Hon. Sir H. A. Atkinson.

Faithfully yours,

W. WESTGARTH.

	A.	B.	C.	D.	E.
New South Wales ...	90	92	94	96	100
Victoria ...	90	92			
South Australia ...	87	90			
Queensland ...	87	90			
Tasmania ...	85	88½			
New Zealand ...	80	85			

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