

monwealth, and converts, renews, or consolidates such debts. The Federal Parliament in so doing would only act as agent for the States, the latter being bound to indemnify the Commonwealth in respect of the debts taken over. The interest payable in respect of the debts is to be deducted and retained from the portion of the surplus revenue of the Commonwealth payable to the several States; or if the surplus be insufficient, or if there be no surplus, then the deficiency or the whole amount must be paid by the several States. The States, therefore, do not diminish their liability in respect of their debts. It is further alleged that the Commonwealth would be able to save money to the States by converting the loans at a lower rate of interest. Most financiers, however, agree that there is no real saving in conversion, and that the holders of State securities will not part with them except upon getting some other security in lieu thereof of at least equal value. Moreover, in the case of New Zealand, the bulk of the public bonds do not mature for many years to come; she would, consequently, be unable to participate in any general scheme of conversion.

Financial Assistance to States.—The framers of the Commonwealth Constitution Act seem to have anticipated that the federation of the Australian States must result in financial embarrassment to some of the federating States, and no doubt that was the reason for the provision in section 96 of the Act that during a period of ten years after the establishment of the Commonwealth, and thereafter until Parliament otherwise provides, the Parliament may grant financial assistance to any State upon such terms and conditions as the Parliament thinks fit. Your Commissioners were unable to ascertain definitely what was intended by that clause, notwithstanding that they sought information from several public men who were concerned as members of the Federal Convention in the preparation of the Commonwealth Constitution Act. Whether such "financial assistance" was intended to be by way of loan or gratuity was a matter upon which opinions differed very materially in the evidence given upon the point.

Your Commissioners are of opinion that the public finances of New Zealand would be seriously prejudiced in the event of this colony becoming a State of the Commonwealth of Australia, and that her State Government would be hampered and embarrassed in respect of finance, and in the prosecution of any policy for developing her resources.

A statement showing the public indebtedness of the several States of the Australian Commonwealth and of the Colony of New Zealand, with the due dates of the several loans, is appended to this report.

III. DEFENCE.

Upon this matter your Commissioners have had the evidence of the Officers Commanding the Forces in the States of New South Wales, Victoria, South Australia, and Queensland, and of Major Madocks, staff officer to the Commander of the Forces in New Zealand. Having carefully considered the opinions of these officers, the Commissioners agree that, so long as Great Britain holds command of the sea, New Zealand is quite able to undertake her own land defence. In the event of Great Britain losing command of the sea, Australia and New Zealand could not rely upon being able to render material assistance to each other in defence against a foreign Power. Your Commissioners are further of opinion that as a separate colony New Zealand would render to Australia all possible assistance in war-time; and similar assistance would be given by Australia to New Zealand. No doubt great advantages may accrue to the Commonwealth of Australia from being now able to unite the local forces of the several States in one Federal force, with a uniform system and under one command; but the distance of New Zealand from Australia would render it necessary, even were she a State of the Commonwealth, for some arrangement whereby independent power would be vested in the Officer Commanding in this colony; besides which a small-arms ammunition factory and separate military stores and munitions of war would be essential in any case here. Some witnesses were of opinion that an Australian navy of considerable power would be created before