Debentures to the amount of £100,000, or give such other security as may not be considered inconsistant with the relative positions of the General and Provincial Governments.

The Superintendent is of opinion that the claims of the Province of Otago to participate in the benefits to accrue from the application of a Colonial Guarantee of its existing loans, are based on nothing less than bare justice. During the past two years its contributions to the General Revenue, Sic in orig. from Customs alone, amount to £———, while the contributions thereto by the whole of the Northern Sic in orig. Island amounted to only £———, and it may be fairly affirmed that the advantages it has derived from the expenditure of the General Revenue have been small compared to the large exactions to which it has been subject. Further, a large proportion of the New Zealand Loan of three millions sterling, to be raised upon the credit of the Colony, is specially destined to promote the colonization of the Northern Island, while the remainder will be absorbed by a War, in which the colonists of the Middle Island possess no local interest and from which they will derive no appreciable benefit.

On an assurance being given that a Guarantee Bill will be introduced to the Assembly by the Government, the Superintendent believes that the Bank of New Zealand would be enabled to negotiate the Otago Debentures upon favorable terms, or, failing to do so, that they would, instead of allowing them to be sacrificed, wait until the Guarantee Bill had become law, and by affording such temporary advances as may be required by it the Province will be relieved from the possibility of its credit being endangered.

Fifthly. There can be little doubt that, in order fairly to develope the resources of the Province and promote colonization, Railways must be constructed to afford that cheap, certain, and rapid communication between the centres of commerce and the more remote districts, by which alone a remunerative occupation of the interior of the country by a large settled population can be effected. As these works would involve not only a great outlay, but also considerable risks, if viewed from a purely commercial point of view, it is not likely that any satisfactory arrangement could be made for their construction by either a public or a private company. The works would therefore necessarily devolve upon the Government, and can only be erected by means of extensive loans.

As other Provinces are, equally with the Province of Otago, interested in this important subject, the Superintendent is of opinion that it is exceedingly desirable that some general principle should be adopted by which all future Loans for Provincial purposes should be negotiated.

He is of opinion that in all cases the following conditions should exist:—

1st. That the Province desirous of borrowing should show sufficient security for the repayment of principal and interest within a certain limited number of years,

2nd. That the purposes for which each Province shall be allowed to borrow shall be clearly defined, and that the works to be undertaken shall be in all cases such as are calculated to develope the resources of the Province, and promote its colonization.

J. Hyde Harris,
Superintendent, Otago.

26th July, 1864.

No. 2.

THE COLONIAL SECRETARY, TO THE SUPERINTENDENT, OTAGO.

Colonial Secretary's Office,
Auckland, 27th July, 1864.

Sir,—

I have the honor to acknowledge the receipt of your memorandum of this day's date forwarded to me in accordance with the understanding arrived at during an interview with Ministers, on the 20th July, on the subject of the Loans of the Province of Otago and on its present and prospective financial position. From this memorandum, which fully enters into the subject to which it refers, you suggest that this Government "should afford an assurance that they will prepare and introduce, as a Government measure, at the next session of the New Zealand Parliament, a Bill by which the guarantee of the Colony may be given to the existing Loans of the Province in order that they may be enabled to rank in the English market or Colonial, and not merely as Provincial securities, and further, should it become necessary to do so the Government will make a temporary advance to the Province of from £40,000 to £50,000, to enable it to meet its existing engagements, entered into previously to the fact being known that Provincial Debentures were unmarketable securities."

The General Government has for some time past felt it necessary to give its special attention to the subect of Provincial Loans, and the present application from yourself, and one of a similar nature from the Superintendent of Canterbury, have rendered it necessary that some course of action should be determined on by the Government.

It is obvious that in making any provision for the future, the position of creditors who have advanced the money already raised in the different Provinces must not be overlooked. The question as to how far the Government of the Colony is liable legally, equitably, or morally, on the security to creditors of money borrowed by the New Zealand provinces has often been discussed. During the last Session of the General Assembly a Select Committee of the House of Representatives was appointed, to whom the subject of Provincial Loans generally was referred; no satisfactory result was attained by this Committee, which made no report upon the general question referred to them, but, amongst other points which they considered, they appeared to have given especial attention to the question of liability