1886.
NEW ZEALAND.

CHARGING INTEREST TO CAPITAL DURING CONSTRUCTION OF PUBLIC WORKS

(PAPERS RELATING TO).

Presented to both Houses of the General Assembly by Command of His Excellency.

No. 1.

The Colonial Treasurer to the Agent-General.

Sir,— The Treasury, Wellington, 26th September, 1885.

I have the honour to ask you to ascertain quietly and without undue publicity what would be the opinion of leading financial and political men as to the propriety, expediency, and justification of charging interest on the cost of large and special works, during the period of their construction, to the capital cost instead of defraying it out of the consolidated revenue. The works I refer to are railways which, when constructed, will yield a revenue, but which, during construction, are necessarily unproductive.

I may say that the Government have not even considered the expediency of adopting the principle, but the question has from time to time cropped up in Parliament, and in view of its possible consideration at a future time I should like to be able to show the opinion good authorities hold upon the subject.

You are probably aware that, as regards private companies, the question has been more than once discussed in both Houses of Parliament in England. It may, however, be considered to have some distinct features as regards its operation upon railways constructed by the Government. The point seems to narrow itself down to this: Is there any reason of a commercial or political economical nature that should make it necessary for a Government, which borrows money for special great productive works, to burden the people with interest upon their cost before they are finished and able to yield any return in the shape of revenue? On the other hand, are there any objections, in the case of such works, to the interest on their cost during construction being added to the capital charge, and thus relieve the people of the burden of that interest until the completion of the works?

I would suggest that you should take the opinion of the Bank of England authorities upon the subject, also that of the brokers of the Government; and, lastly, the opinions, if you could obtain them, of two such eminent Chancellors of the Exchequer as Mr. Gladstone and Lord Iddesleigh. I am sure the latter, if you mention my name, will be kind enough to give you his view upon the subject. I think also Mr. Gladstone, who has always shown himself willing to give his advice when asked by colonial communities, will not object to do so in this case.

I should remark that I am not asking you to make these inquiries with any idea that such a practice would be adopted generally with respect to small works; but there may be certain cases, such as extensive railways, in which the course might be considered expedient. I should add also that it must not be supposed I am referring to capitalizing the interest with the view merely of postponing its payment; but I am speaking in reference to works from which there would be every right to expect a considerable and constantly progressive return after their construction was completed.

I may observe that, according to the late official returns, the profits upon the New Zealand railways now working amounted, for the year ending 31st March, 1885, to over 3 per cent. on the cost of construction.

I shall be greatly gratified also if you will, when enclosing the opinions of other eminent authorities, favour me with your own views upon this matter. You will, I am sure, agree with me that these are questions upon which the colony, besides forming an opinion of its own, may justly be anxious to know the opinion of those who, so to speak, have a collateral interest in the subject.

I have, &c.,

The Agent-General for New Zealand, London. Julius Vogel.

P.S.—Although I have marked this "Confidential," I wish it to be understood that the Government are to exercise their own discretion with regard to using it and your replies.