

I trust that on their part there will be no unwillingness to co-operate with you in confining the measures of severity, to which it may be necessary to have recourse, within those just and moderate limits to which I have referred.

I now turn to the Act which authorises a loan of 3,000,000 £., for which it is desired to obtain the guarantee of the Imperial Parliament. I observe that of the total sum which it is proposed to raise, 1,000,000 £. is allotted to the expenses of the war, 200,000 £. to the repayment of a debt to the Imperial Government, which has probably doubled since that time, 200,000 £. to the compensation of the Taranaki settlers, and the rest, in the main, to the settlement of the country. The bulk of it appears to be appropriated to the plan of military settlement, to which I have already adverted.

Her Majesty's Government recognise as exceptional the expenses occasioned to the Colony by the native war; and they are not unwilling to entertain the question of extending the guarantee of 500,000 £., which they have already conditionally promised to submit to Parliament, to such a further sum as will cover the increased debt of the Colony to the Imperial Exchequer, and so much of these military expenses, including 200,000 £. for compensation to the Taranaki settlers, as may properly be defrayed, not out of the current revenue of the Colony, but by loan.

But the same reasons do not in their judgment apply to the settlement of the country, which, whether successful or not as a measure of defence, is mainly a matter of colonial interest, inasmuch as its success is calculated to add to the wealth and population of the Colony. To a purpose of this kind the Imperial credit is not generally applicable; and Her Majesty's Government do not consider that the land which it is proposed to acquire under the Settlement Act is of any such definite value as materially to add to the security on which the guarantee of Parliament could be given. The omission of this sum will reduce the whole loan within much narrower limits; and I will consider and write you on a future occasion how far the revenue of New Zealand, pledged by the terms of the Act, and the considerations to which I have referred, may justify Her Majesty's Government in increasing the proposal they have already promised to make to Parliament. Under any circumstances, the sum will doubtless appear to Parliament larger than it has been usual to guarantee to a Colony of the size and resources of New Zealand, and could only be proposed by the Government with any prospect of success in connexion with the peculiar circumstances of the present loan, and in the well-founded hope of a final pacification and settlement.

I must now call your attention to the importance of reducing as rapidly as possible, after the conclusion of the troubles, the large force now maintained in New Zealand, and I confidently expect to receive from you such information as may enable me to communicate to the Secretary of State for War the possibility of a great reduction in the number of men, and consequently in the estimate for the year 1865-6.

I must also remind you, that for the great expense which this country has already incurred in putting down the present insurrection, the Home Government only calls upon the Colony for that almost nominal contribution which it has already engaged to pay. The arrangement at present in force respecting the amount of the military contribution, and the proportion of it which is to be returned to the Colony, to be employed for the benefit of the Natives, will terminate with the close of the present year. In consenting to guarantee a large loan for the Colony, the Imperial Government will feel it necessary to require that, if at the close of that period the Colony should continue to require assistance of the Mother Country, a much more adequate contribution shall be made to the Imperial Exchequer. I am, however, unable at this moment to convey to you any definite decision on this part of the subject. It is under the consideration of the Government, and I shall take an early opportunity of addressing you again upon it.

I conclude by expressing an earnest hope that the operation in which General Cameron has been engaged may already have terminated the war, and shall rejoice when I am able to congratulate you on having succeeded, by the wisdom of your own measures, and those of your Government, by the skill of that distinguished Commander, and by the valour of the Queen's Troops and Seamen, and of the Colonial Forces engaged in the conflict, in restoring the blessings of order and good government to the country entrusted to your care.

Governor Sir Geo. Grey, K. C. B.

I have, &c.

EDWARD CARDWELL.