

Through that letter I am informed—

1stly. That the Proclamation is illegal.

2ndly. That His Excellency the Governor will be advised to disallow any Ordinance of the Provincial Council which shall appropriate Provincial Revenue in giving effect to such Proclamation, and

3rdly. That the Commissioner of Crown Lands for this Province has been instructed to issue a notice to the effect that the tax must be paid by purchasers in terms of the "Otago Waste Lands Act, No. 2, 1863," and that all Crown Grants issued to such purchasers will be made expressing subject thereto.

In proceeding to reply to your letter I venture to express a hope that the General Government, when more fully informed of the circumstances which led to the issue of the Proclamation, will find reasons for affording the Provincial Government such assistance as may be necessary to give it legal effect.

As a first view of the act of this Government in issuing the Proclamation in question may, in the absence of explanation, have led the General Government to entertain the erroneous opinion that the Provincial Government of Otago had wantonly taken in hand to defeat the operations of an Act of the General Assembly, I take the opportunity afforded by the receipt of your letter, now under reply, to place before the General Government a statement of the causes which led to the course pursued.

As long ago as the month of July last the financial difficulties with which this Government found themselves surrounded, owing to the non-disposal in Great Britain of our half million Provincial Loan, became so imminent that I found it to be necessary to undertake a special journey to Auckland to confer with your predecessor in office on the subject. As you are doubtless already aware my interviews with the Government on that occasion resulted in the promise on their part to advance temporarily to the Government of this Province the sum of £40,000, if required to do so. Also in a promise to introduce a measure to the General Assembly during its last session, to guarantee on behalf of the Colony the Loans which had been authorised by Ordinances of Provincial Legislatures and assented to by His Excellency the Governor and General Government.

On the 20th September last the "Otago Waste Lands Acts, Nos. 1 and 2 of 1863," were brought into operation by Proclamation of His Excellency the Governor published in the General Government *Gazette*.

On the 7th of October following, up to which time this Government had not found it absolutely necessary to avail itself of the privilege which had been accorded to it of drawing upon the Colonial Treasury. I received a letter from the Honorable F. Whitaker, acting for the then Colonial Secretary, in which I was informed that the General Government regretted that they were then unable to make any advance to this Government.

Shortly after this date the Provincial Government, as had been for some time anticipated, found that the resources at its disposal were inadequate to meet the requirements of Government, owing to a decreased Revenue; a large current expenditure which it was impossible suddenly to check; to heavy liabilities to the Bank of New Zealand, which the Provincial Government were not permitted to increase, and to the fact that authorised loans of the Province were unmarketable except at a ruinous discount. Amongst the causes which had operated as obstructions to the disposal of the Loan, the absence of a Colonial Guarantee and the presence of a Colonial Loan in the market at the same time may be ranked as some of the most formidable.

The promise of the late Government to take steps during the last Session of the Assembly to place our Debentures on a footing of equality with the securities of the Colony, issued under sanction of the General Assembly, was therefore received by the Provincial Government with much satisfaction, and they were naturally anxious for and expected its fulfilment. The Session of the Assembly, however, came and passed away, and the consideration of the position of Provincial Debentures and of Provincial Finances appears to have been indefinitely postponed.

Of itself this omission to deal with a question of such vital import to this Province promised to be productive of serious loss and embarrassment; but taken in connection with the sanction given by the Assembly to negotiate Colonial Debentures not only at an increased rate of interest to that previously authorised, but at a rate of 2 per cent. in excess of that which our half million loan is entitled to bear, it could not operate otherwise than as a prohibition of their sale.

The Provincial Government were thus placed in a position which afforded them but little choice of alternatives. The Commissioner of Crown Lands could afford no prospect of Revenue from Land Sales. Our 6 per cent. debentures appeared to be wholly unavailable. The Revenue arising from other sources was found to be on the decrease and to be insufficient to meet Departmental and other ordinary expenditure, while progress payments on account of uncompleted contracts for Telegraphs, Roads, Bridges, Harbor Improvements and other Public Works, were constantly accruing due and had to be provided for.

The attached memorandum by the Provincial Treasurer, dated 20th December last, will throw additional light on the position of the Provincial Government at that time, showing as it does that the Government had at their option an immediate suspension of payment or an immediate recourse to some extraordinary means of increasing the Revenue. Those adopted appeared to be, and I believe were at that time, those only by which it was possible for the Government to continue to meet the demands upon it.

Two considerations weighed strongly with the Government in favor of the course which they adopted—1st. The Acreage Tax, in the mode in which it is imposed by the "Otago Waste