

The BANK of ENGLAND to the AGENT-GENERAL.

SIR,— Bank of England, E.C., 16th March, 1886.
Your letter of the 23rd February arrived when the Governor was absent on account of illness; hence the reason of the delay in our replying to it.

We have read the copies of despatches you sent in reply to the letter of the Colonial Treasurer of New Zealand, dated the 26th September, 1885, and they seem to us to exhaust the subject of the principle of allowing interest to be charged to capital during the construction of large public works, so far as custom is concerned; but the cases cited by you refer to private companies, and cannot, we think, be made a precedent for a large and responsible Government to follow.

We submit that it would be very inexpedient that the Government of New Zealand, or any Colonial Government, should alter the basis on which their loans have hitherto been offered in this country. The credit of every colony must depend upon the judicious and careful administration of its finances, and the faith in the minds of the investors that the Government will not increase the indebtedness of the colony beyond the amount absolutely necessary for the development of its resources, and that the works for which the loans are made do not outrun the capacity of the colony to make them reproductive.

The indebtedness per head of the population of New Zealand is larger than that of any other colony. This fact is frequently brought into prominent notice; and we think it is important to avoid any change of system which, though it may resolve itself into merely a book entry, might, to an investor's mind, throw a doubt upon the credit of a colony which at present stands high in the estimation of the public.

Under these circumstances we are of opinion that it would not be expedient to charge interest on the capital cost of public works of New Zealand during construction, instead of defraying it, as hitherto, out of the consolidated revenue.

We are, &c.,

JAMES P. CURRIE, Governor.

M. W. COLLET, Deputy-Governor.

Sir Francis Dillon Bell, K.C.M.G., 7, Westminster Chambers, S.W.

The AGENT-GENERAL to the BANK of ENGLAND.

GENTLEMEN,—

7, Westminster Chambers, S.W., 17th March, 1886.

I have the honour to acknowledge your letter of yesterday, conveying your opinion on the subject of charging of interest to capital during construction of public works, and I beg leave to return you my thanks for this communication, which I shall at once transmit to my Government.

I have, &c.,

F. D. BELL.

The Governor and Deputy-Governor of the Bank of England.

No. 13.

The AGENT-GENERAL to the COLONIAL TREASURER.

SIR,— 7, Westminster Chambers, London, S.W., 25th March, 1886.

In my letter of the 18th February, No. 221, I informed you that I was in communication with the India Office to ascertain how far the principle of charging interest to capital had been applied in the Indian railway system. I now beg permission to enclose copy of the correspondence which has taken place.

You will perceive from the India Office letter that the railway system of India, as at present in operation, is under the three heads of "State," "guaranteed," and "assisted" lines. In the case of the State lines, the required capital is found by the Government of India, who debit the undertaking with 4 per cent. interest on the sums expended until its earnings are sufficient to provide for the charge. In the case of the guaranteed and assisted lines, the contracts with the companies provide for the payment of interest during construction out of the revenues of India.

In the Financial Statement of Sir Auckland Calvin, published yesterday at Calcutta, it is stated that, while the Famine Insurance Fund for 1885-86 had amounted to the normal amount of £1,500,000, the estimate for 1886-87 is only to be for £1,361,000, the balance being assigned to the payment of interest during construction to the Indian Midland Company, whose railway forms part of the network of lines to the prosecution of which the fund is partly devoted. The objection, therefore, to which I referred in my letter of 18th February, No. 221, as having so long existed against applying any part of the fund to the payment of interest during construction has now been waived.

By next mail I shall send you, from the contracts between the Secretary of State for India and some of the railway companies, the precise terms in which the power to pay interest out of capital has been conferred.

I have, &c.,

The Hon. the Colonial Treasurer, Wellington.

F. D. BELL.

Enclosures in No. 13.

The AGENT-GENERAL to the UNDER-SECRETARY of STATE for the COLONIES.

SIR,— 7, Westminster Chambers, S.W., 18th February, 1886.

I beg permission, on behalf of the New Zealand Government, to lay before Earl Granville a request that he may be pleased to move the Secretary of State for India to favour me with information on the following subject.

In the session of 1884 a Committee of the House of Commons presented a report to the House on the subject of Indian railways, reviewing the proposals made up to that time by the Government of India for extending the railway system in that country. Those proposals involved an extended application of the principle, which had already been sanctioned in many cases, of allowing interest to be paid out of capital during construction; and I gather from the report, and the evidence given before the Committee on the part of the Indian Government, that the principle itself was entirely accepted for future railways.

A similar question is now under the consideration of my Government—as to how far the application of the same principle would be legitimate in the case of State railways constructed by a Colonial Government out of public funds; and the chief points to be determined appear to be, to some extent, analogous to those which have been so fully considered by the Imperial and Indian Governments in the case of the Indian lines. It would be of the highest value to New Zealand if the Secretary of State for India would be pleased to communicate to me, for the information of my Government, such particulars as his Lordship may think right to give as to the extent to which the principle has been actually applied in India, and will be recognized in future extensions of the Indian railway system.

I have, &c.,

F. D. BELL.

The Under-Secretary of State for the Colonies.