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**Imperial Bonds and
Public Debt Management in New Zealand between the Wars:
*an Analytic Study of Public Policy Subject Files***

A thesis presented in fulfilment of the requirements of the degree of
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ABSTRACT

This thesis examines the role of New Zealand's public borrowing in the London money market, between 1925 and 1939. The study focuses on the issue of long term government stock as 'trustee securities', with the trustee status indicating that the conditions of the 1900 Colonial Stock Act were being observed. Public and private trusts in Britain could invest in New Zealand government securities, knowing that the securities were 'gilt-edged', and had the lowest possible risk. The gilt-edged nature of colonial stock was only attained by agreeing to three conditions imposed by the British Government, which permitted British bondholders to secure their investment through a court order, in the event of default on loan repayments. The conditions also included the right of reservation on the colony's Parliament, or a 'power of disallowance', which meant that the British Parliament could force changes to a colony's own legislation. The constitutional aspects of the Colonial Stock Act were significant in the 1930s, as the passing of the Statute of Westminster for New Zealand would mean the option of borrowing in London would be altered. The economic significance of the Colonial Stock Act emerged in 1932 when New Zealand faced loan default in London, and an inability to transfer funds to pay interest. The Bank of England had lent sterling exchange in London, and the trading banks also provided cash in New Zealand. The problems with exchange emphasised the weakness in the system of public finance. Though there was a strict form of accounting maintained by the Audit Office, public works programmes had to be re-funded from annual London loans, as the Treasury found it increasingly difficult to maintain cash balances for spending programmes and debt commitments in London. When exchange rates were devalued the fiscal problem worsened, even with the central bank that had been promoted by Treasury. The Reserve Bank's role in local banking situations did not ease the management of the sterling exchange reserves needed for debt repayment. New Zealand once again faced default under the Colonial Stock Act in 1939. The thesis indicates how this was avoided, due to the imperial political underpinning the interests of London bondholders. Imperial bonds helped ensure national solvency and domestic public works programmes continued. But at the same time as a national currency was secured, the altered banking system also had implications for debt management, ending the elaborate system of statutory accounts.

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