M. Lounatcharski (Union of Soviet Socialist Republics) asked that, instead of stating that the statistical tables would be drawn up in pounds, dollars and francs, it should merely be said that they would be drawn up in one and the same monetary unit.

M. de Modzelewski (Poland) said that, while it had been agreed that the question should not be regarded as finally settled, the text of the proposal was such as to convey the impression that the Commission had finally adopted a principle which could not be finally accepted until the end of its work. He asked that the text should accordingly be modified.

General Barberis (Italy) had no difficulty in accepting M. Lounatcharski's proposal. He could not adopt the same attitude towards M. de Modzelewski's proposal. It was evident that the great majority of the Commission realised the impossibility of making a comparison between the expenditure figures of various States. If the word "difficulty" were used instead of "impossibility", this would inadequately express the idea on which the great majority of the Commission had agreed. The Italian delegate left it to the Commission to take a decision in this respect.

M. Radulesco (Roumania) said there was no doubt that the words "while unanimously expressing immediately the principle of the impossibility..." definitely implied that the matter had been settled. The question then arose as to the value of the second reading to which reference had been made. He further pointed out that the second paragraph of the proposal referred to the statistical publications of the League of Nations. The Expenditure Commission was not an organ of the League of Nations but a Commission of the Disarmament Conference, in which States non-members of the League were taking part. As the text submitted might give rise to serious objections, he proposed that a drafting committee should be appointed which would redraft the proposal while taking into account all the observations made by the members of the Commission.

The President agreed that this was a wise proposal, and requested the Commission to express its views on it.

General Barberis (Italy), referring to M. Radulesco's remarks, accepted his proposal.

Mr. Barnes (United Kingdom) agreed with the proposal to refer the resolution to a drafting committee. He was not clear on one point. The original text suggested that the military expenditure should be given in pounds, dollars and francs. Later it was proposed that it should be stated in a single currency. He thought that in any case expenditure should be expressed in the original currency, whether converted into any other currency or not.

It was decided to appoint a drafting committee, consisting of M. Radulesco, M. de Modzelewski, General Barberis, M. Sandler, M. Prenen, M. Lounatcharski and Mr. Barnes, to re-draft the Italian proposal.

M. Lounatcharski (Union of Soviet Socialist Republics) regretted that he could not take part in the work of the drafting committee on account of his numerous engagements.

NINTH MEETING

Held on Wednesday, May 11th, 1932, at 3.30 p.m.

President: M. de Vasconcellos.

18. DOCUMENTATION SUPPLIED BY THE CZECHOSLOVAK DELEGATION : APPLICATION OF THE PRINCIPLE OF SIMULTANEITY.

M. Farsky (Czechoslovakia) stated that his delegation had deposited complete documentation. It desired to waive the principle of simultaneity in respect of the examination of documents.

19. IMPOSSIBILITY OF COMPARING THE STRENGTH OF ARMAMENTS OF VARIOUS COUNTRIES ON THE BASIS OF THE FIGURES OF NATIONAL DEFENCE EXPENDITURE (Continuation of the discussion).

The President read the following draft resolution prepared by the drafting committee.

"The Commission on National Defence Expenditure expresses the opinion that:
"If the final examination of the question as to the comparability of the strength of armaments of all countries on the basis of national defence expenditure for any single year should prove conclusively the impossibility of making such a comparison,
"All international statistical publications concerning the military expenditure of the different Powers should indicate clearly this impossibility."
General BARBERIS (Italy) said that when he had put forward his resolution he had had the impression that the Commission unanimously accepted the principle that it was impossible to compare the armaments of different countries on the basis of their national defence expenditure. It subsequently appeared that there was some doubt on this point, which would have to be cleared up later. The drafting committee had therefore amended the initial clause so that it read: “If the final examination . . . should prove conclusively the impossibility of making such a comparison”.

In the second place, the reference to the publications of the League of Nations had been omitted and replaced by the general phrase “publications concerning military expenditure”.

Lastly, as the Soviet and United Kingdom delegations had objected to the clause regarding the currency units in which the statistics were to be expressed, this detail had been omitted so that it might be subsequently decided by the body responsible for the publications.

M. LOUNATCHARSKI (Union of Soviet Socialist Republics) thought that, as a result of these alterations, the resolution had lost its value. It had been changed from a direct to a hypothetical statement. The Soviet delegation, therefore, could not accept it.

M. LANGE (Norway) had, like the Italian delegate, thought the Commission was unanimous on the principle that the expenditure figures of different countries could not be compared. It appeared, however, that, though the Polish delegate stood alone in his view, he had nevertheless succeeded in getting his opinion reflected in the draft resolution. In reality, the vast majority of the delegates thought no comparison was possible. He therefore agreed with the Soviet delegate. The draft must either be rejected in its present form or the discussions should be adjourned until the main question was settled. He proposed that it be adjourned.

M. DE MODZELEWSKI (Poland) said his influence on the draft had been small. He thought M. Lange was under a misapprehension and that a number of delegates were not convinced of the impossibility of comparing expenditure figures. Unanimity had not been reached on this point, but it might be reached at a later date. He thought a vote might be taken on the resolution now, although it would only take effect from the moment when unanimity was reached.

Colonel ELLIS (India) agreed with the Norwegian delegate.

M. HITONEN (Finland) raised a point of detail. The resolution referred to publications without specifying what publications were meant. As only official publications could be referred to, he thought the text should make this clear.

General BARBERIS (Italy) said that his intention had been merely to prevent the comparison of figures which were incomparable. He had no objection to the discussion and vote being adjourned.

General TANCZOS (Hungary) agreed with the Italian delegate. He wished to point out now, when the Commission was entering into details, that its decisions were not final and binding, because the General Commission had not yet discussed such fundamental questions as the reduction and limitation of armaments by budgetary methods, publicity and, more particularly, the combining of direct and indirect limitation. Document Conf.D.103 specified certain questions to be studied by the General Commission (see B, Chapter A (e), Article 10, Limitation of Land Materials by Budgetary Methods; and Part III, Article 29, Limitation of Expenditure).

He added that the Hungarian delegation took part in the discussion of these fundamental principles on the understanding that it would always have the right to revert to these questions after the Commission had taken a decision on them.

Colonel KARMANN (Germany) took the same view.

The PRESIDENT pointed out that he had made this clear in his opening speech and had given the same reasons as the Hungarian delegate.

General TANCZOS (Hungary) expressed himself satisfied by the President's statement.

M. JACOMET (France) thought it was logical that, as no unanimous decision had been reached regarding the comparability of expenditure figures, no conclusions could be drawn. He therefore agreed with the Italian delegate that the resolution should be adjourned.

The Commission decided to adjourn the vote on the draft resolution.
At 31

20. MEANING AND SCOPE OF THE TERM "EXPENDITURE ON NATIONAL DEFENCE".

(a) Secret Funds and Changes in the Appropriations of Funds. Proposal by the Soviet Delegation.

The President pointed out that the Committee of Experts on Budgetary Questions had thought it would be appropriate to secure an undertaking that all expenditure for armament purposes (whether styled secret or not) should be included in the figures to be entered in the returns under the Convention, and therefore within the scope of the limitation provisions.

The Commission might perhaps for the moment merely express its agreement (or disagreement) with this principle, subject to reverting to the methods of application after receiving the report of the Technical Committee, to which this point should no doubt be referred.

The proposal made by the Committee of Experts on Budgetary Questions was, if he had rightly understood it, intended to comprise that submitted by the Soviet delegation to the Preparatory Commission, namely:

"Secret funds intended in a disguised form for extraordinary expenditure on special preparations for war or an increase in armaments shall be excluded from the national budget.

"In conformity with the above provision, all expenditure for the upkeep of the armed forces of each State shall be shown in a single chapter of the national budget; their full publicity shall be ensured."

Since the report by the Committee of Experts was of a later date than the Soviet proposal, it would be interesting to learn whether the Soviet delegation considered that the proposals of the Committee of Experts were calculated to allay the apprehensions on which its proposal was based.

He drew attention to the last paragraph in Chapter 3 of the report by the Committee of Budgetary Experts, and suggested that the whole question should be referred to the Technical Committee.

M. LOUCHANTARSKI (Union of Soviet Socialist Republics) wished to repeat the Soviet view that publicity in itself could serve no useful purpose. The Armaments Year-Book of the League of Nations contained a store of valuable information, but was nevertheless useless for the purpose of limitation. If publicity was to be useful it must be based on reduction.

The report by the Budgetary Experts, after quoting the Soviet text, made the following comment: "The intention of this proposal would appear to be that the budget accounts should not contain any expenditure under headings which do not exactly indicate the purpose of the expenditure in question". This did not reflect the Soviet view that the budget should include all expenditure, and that there should be no秘密 funds intended in a disguised form for extraordinary expenditure.

On the other hand, the Soviet delegation was quite satisfied with the conclusion drawn by the Budgetary Experts on page 8 of their report: "...the Committee recommends that the Convention should contain an overriding clause to the effect that the parties to the Convention will give in their returns all their expenditure on armaments, classified according to its true utilisation". He would add, however, the words "without exception" after the words "all their expenditure on armaments".

He was glad to note that the German delegation, which had submitted a proposal on this point, was in agreement with the Soviet delegation.

M. JACOMET (France) said the Budgetary Experts had discussed the Soviet proposal at great length. Their aim was to ensure that all expenditure on national defence was included in the statement. He agreed to the addition of the words "without exception".

He would be glad if all national defence expenditure, some of which was now included in the budgets of civil departments, municipalities, etc., could all be included in a single State budget. But he feared that, for traditional or administrative reasons, this was impossible. It frequently happened, too, that joint purchases were made by several departments, for the sake of economy. As an example, he mentioned that army horses were bought in France by the Ministry of Agriculture and this expenditure appeared in the budget of that department. This was not done with any intention of disguising military expenditure, but because the Ministry of Agriculture had a purchasing service, so that the arrangement made for economy.

He therefore did not think the Commission could insist on all expenditure being included in the national defence budget, but suggested that this question should be referred to the Technical Committee with instructions to make as far-reaching proposals as possible for the inclusion of all national defence expenditure in a single budget.
The President suggested that the last paragraph of the proposal presented by the German delegation, which read as follows, should be discussed at the same time:

"In any case the German delegation strongly supports the original proposal made by the Soviet delegation contained in paragraphs 178-179 of the Report by the Committee of Experts on Budgetary Questions set up by the Preparatory Commission, according to which 'All expenditure for the maintenance of armed forces of any country shall be brought together in a single chapter of the State budget'."

M. DE MODZELEWSKI (Poland) thought the Soviet and German proposals were of extreme importance, and if they were practicable would greatly simplify the work. But he agreed with the French delegate as to the difficulties in the way of such a solution. There were cases when it would be illogical to include expenditure of a more or less military character in the national defence budget. For instance, in Poland some schools prepared pupils for the army, although the schools themselves had no definitely military character.

The expression "formations organised on a military basis" had not yet been defined. If it was eventually decided that this expression included the police force, would that mean that expenditure on the police should be included in the national defence budget?

As some categories of expenditure could not be included in the national defence budget, in spite of the fact that they were more or less of a military character, another solution had been found, and the model statement had been prepared.

Colonel KARMANN (Germany) pointed out that the question had been raised merely on account of its technical importance, and that there were no political or military reasons behind it.

M. JACOMET (France) agreed with M. de Modzelewski. If the Soviet proposal could be accepted, it would be a perfect solution, but unfortunately that was impossible.

Moreover, there was another aspect to the question. The national defence budget not only did not always include all the expenditure for national defence, but it sometimes included expenditure, such as pensions, which was not intended for military purposes.

He proposed a compromise—namely, that the Technical Committee should be asked to consider whether it would not be possible to obtain from the various States a table of expenditure on national defence, which would contain a list of national defence expenditure not included in the military budget and also a list of expenditure included in that budget but not intended for purposes of national defence. Such a table would be presented at the same time as the budget and accounts; it would show whether the expenditure on national defence, under whatever section of the budget it appeared, had been included in the statement.

He suggested that the Technical Committee, in examining the documents of the various countries, should bear in mind the Soviet proposal together with the compromise he had just suggested. The French delegation was very anxious that everything should be done to enable a clear view of all expenditure for national defence to be obtained.

Mr. BARNES (United Kingdom) said that, without wishing to discuss the French proposal, he would agree that the model statement should comprise all expenditure without exception. The form in which the budget was prepared was a purely academic question. This involved technical matters, and he saw no objection to its being considered by the Technical Committee.

He referred to the statement on page 7 of the report by the Committee of Budgetary Experts that the classification of expenditure in the sub-heads of the budget accounts of different countries would involve so many political considerations that it was difficult for a Committee of Budgetary Experts to deal with it as it stood. This aspect might raise serious difficulties, on which his delegation might have to make reservations.

Colonel KARMANN (Germany) thought the French proposal formed a solution of the problem.

M. JACOMET (France) wished to supplement his proposal by adding that the Governments should undertake to publish all funds derived from extra-budgetary sources and devoted to national defence expenditure.

The President thought the discussion had been most useful, since it had shown the views of the various delegations. It was not, however, the Commission's duty to prepare a text. This should be done by the Technical Committee, to which body he proposed to refer the question, together with paragraph 2 and the last paragraph of the German proposal.

The President's proposal was adopted.

1 See sixth meeting.
(b) Gross and Net Expenditure.

The President pointed out that, according to the proposal of the Committee of Budgetary Experts (Chapter 7), gross expenditure rather than net expenditure should be taken as the basis for limitation and publicity.

The Committee in its report had contemplated certain exceptions to this rule. The Technical Committee, in examining the information supplied by the various States, would no doubt note the difficulties encountered by those States in applying the principle laid down by the Committee of Experts. Without knowing these technical difficulties and the means which the Technical Committee would propose to overcome them, he thought it would serve no useful purpose to discuss the substance of this question. Unless any delegate wished to speak on the subject he proposed to refer it to the Technical Committee.

Viscount Mushakoji (Japan) said that in Chapter 7 the Committee of Experts on Budgetary Questions had directed its attention to cases where help was rendered to the civilian population in emergencies by the defence services and extra expenditure was thereby incurred. The Committee had considered that such extra expenditure should not be regarded as defence expenditure, and might therefore be omitted from the returns. For this reason, paragraph 5 of the draft annex had been worded as follows:

"Where additional expenditure is incurred by the forces as a result of help given in emergency to the civil population, such additional expenditure may be omitted from the returns, whether or not it is paid by the beneficiaries."

The Japanese delegation appreciated this solution as a suitable measure for complying with urgent needs in exceptional circumstances under the system of budgetary limitation. In this connection, however, it would point out that disasters or grave occurrences frequently happened either as a result of the particular geographical position, or of disorders, and a state of insecurity threatening the life and property of the civil population. In such cases a Government in the exercise of its rights and duties was obliged to a greater or less extent to protect the lives and property of the civil population. It was not merely a question of helping the civil population, though the principle was the same. Consequently it was clear that expenditure for the protection of the civil population did not constitute national defence expenditure. From this point of view the Japanese delegation noted that the present wording of paragraph 5 of the draft annex was not quite satisfactory, and had reserved the right to propose a suitable amendment to the terms of that paragraph.

The Commission decided to refer this question to the Technical Committee with the remarks of the Japanese delegation.

(c) Subsidies, Loans and Participations.

The President pointed out that the Committee of Experts on Budgetary Questions had proposed, in Chapter 8 of its report, that subsidies granted in the form of loans to or participations in establishments, having among their objects the furnishing of goods or services for national defence, should be regarded as expenditure effected on such goods or services and should consequently be included in the model statement. The Committee considered that the refund of a loan should not be deducted from national defence expenditure. It nevertheless contemplated certain exceptions to these rules in the case of the grant of subsidies or loans which were unconnected with armaments or purely temporary advances which were not renewed. The Committee thought, nevertheless, that the fullest publicity should be given to such exclusions and it had therefore provided Table E on page 40 of its report. The President thought the Commission could not give an opinion on these points until they had been carefully studied by the Technical Committee. He nevertheless considered that any opinions which might be expressed on this subject by the members of the Commission would be very useful to the Technical Committee.

M. Jacomet (France) emphasised the importance of the question dealt with in Chapter 8 of the Experts' report from the point of view of publicity or limitation of armaments expenditure. In some countries the idea of joint undertakings was growing, and governed the relations of the State with private concerns, so that public bodies (States, districts, departments, municipalities) were authorised to participate in private industries. Such participation might assume various forms, such as the subscribing of capital, the grant of shares, the subsequent purchase of shares, the concession of the ownership or use of certain installations, the grant of rights and privileges in return for the right of control or a share in profits. There were even cases when the right to participate in this manner was laid down in the constitution.
arsenals were closed down, while private undertakings were manufacturing war material, ultimately in no way reducing the war potential. The fact that in many countries State budgetary expenditure in ways which it was difficult or impossible to discover, and this would therefore, be taken solely of State arsenals and private undertakings receiving guaranteed financial assistance from the State budget. A list should be drawn up and the limitation of such measures could only bind States to transform the character of national defence by law. It was obvious that participations of this kind, in undertakings manufacturing war material in peace time, were in the nature of military expenditure. The same applied to participations aiming at permitting certain enterprises to equip themselves in peace time for the manufacture of war material immediately after mobilisation.

M. Jacomet thought the question offered no difficulty if the subsidies were granted direct and if the corresponding expenditure was inserted in the budget and in the accounts. The case was different when such participations were indirect and, in particular, when they were granted through the agency of holding companies or banking institutes with State capital. In this case the attention of the Commission should be directed to the multiplicity and elasticity of the procedure, which might be used for subsidising armaments undertakings.

He thought that such operations should as far as possible be controlled and examined in the same way as expenditure of any kind appearing in the public accounts of the State. It would therefore be necessary to consider what methods might be used for indirectly subsidising the armaments undertakings referred to in Chapter 8 of the Experts' report. Chapter 8 should therefore be referred in full to the Technical Committee, which should be asked to examine whether the clauses inserted in the draft annex prepared by the Committee of Experts on Budgetary Questions were sufficiently precise to include all cases which might arise and whether there was any reason to supplement them. The French delegation therefore proposed that Chapter 8 should be referred to the Technical Committee, provided the latter could co-opt any competent persons which it thought fit for the study of the question of participation.

The President pointed out that as regards the second part of its proposal the French delegation had already received satisfaction. In the Technical Committee's terms of reference it was provided that the latter could, if it thought fit, co-opt persons whose co-operation it considered useful.

M. Lounatcharski (Union of Soviet Socialist Republics) said that the Soviet delegation thought the solutions proposed by the Budgetary Experts with regard to the returns of capital invested in war industry were inadequate both technically and from the point of view of the principle itself. In Chapter 8 of their report and, in particular, in Article 28 of the draft annex to the Convention, the Experts had proposed the limitation not only of expenditure relating to the purchase of war material and subsidies to autonomous State establishments manufacturing such material, but also of subsidies to private industry working with the same object. They had thus shown the reasonable tendency of limiting the war potential of the State. Moreover, M. Jacomet, in the statement he had just made, had requested the Commission to go one step further in this direction.

The Soviet delegate, however, thought that this effort could not be regarded as sufficient. Undertakings supplying war material to the State could be divided, according to the manner in which the capital was invested, into four categories: (1) undertakings coming under the State budget; (2) autonomous State establishments; (3) private undertakings in which the State took no part. Moreover, there were countries which had no war industry in their territory and were obliged to import war material from abroad. In M. Lounatcharski's opinion, the experience of the world war showed that the capitalist countries could use any private industry for military purposes and obtain as high a yield as from a State enterprise. The utilisation of private undertakings by the State had become still easier and if the corresponding expenditure was inserted in the budget and in the accounts. The difference between the four groups of industrial undertakings was, therefore, merely economic and not military. Only those countries which imported war material were in a special position and were placed somewhat at a disadvantage.

He thought that in these circumstances the war potential in no way depended on the ownership of industrial enterprises manufacturing war material. The important point was that these undertakings, whether private, semi-private, public or semi-public, existed in the territory of a State and not outside its frontiers. In time of war all these enterprises could supply material to the State whatever their financial system in peace time. Account should therefore, be taken solely of State arsenals and private undertakings receiving guaranteed financial assistance from the State budget. A list should be drawn up and the limitation of all capital used in war industry should be considered, whatever the origin of such capital. If the Commission confined itself to the measures recommended by the Committee of Experts on Budgetary Questions, this would not guarantee any limitation of the growth of the war potential. Such measures could only bind States to transform the character of national defence budgetary expenditure in ways which it was difficult or impossible to discover, and this would ultimately in no way reduce the war potential. The fact that in many countries State arsenals were closed down, while private undertakings were manufacturing war material,
could be explained only by the desire that private capital should be drawn into the war industry. This placing of capital might also be stimulated by encouraging exports of armaments, by granting credits to foreign countries for military orders and so on.

For all these reasons, the Soviet delegation considered that Head IV of the model statement or the annexed tables should include not only expenditure relating to the war industry coming under the State budget but also all capital invested in war industry, whatever its source. These private or semi-private investments should be returned and limited under the same conditions as budgetary or extra-budgetary expenditure relating to national defence. This proposal, moreover, was in conformity with the idea expressed by M. Jacomet in respect of the necessity for including extra-budgetary expenditure in the statement of military expenditure. As the States which had submitted information had, in drawing up their model statement, complied with the recommendations of the Experts, they had certainly not taken account of private capital invested in the war industry. The Soviet delegation therefore thought it necessary to request the countries represented at the Conference to supply supplementary information regarding the investment of private capital in the war industry for the same period as that for which they had drawn up the model statements.

The President noted that the Soviet delegate wished the rules recommended by the Experts in respect of State subsidies to be extended to private industry. This was a new principle which it would be important to discuss and which would require exhaustive study. He requested M. Lounatcharski to submit a definite proposal in writing.

Colonel Karmann (Germany) thought the question raised in Chapter 8 of the Experts report was most difficult and complicated. It was directly connected with the question of prices and with the question of fluctuations in the purchasing power of the various currencies which was referred to in Chapter 18 of the report. The solutions recommended by the Committee of Experts on Budgetary Questions did not entirely satisfy the German delegation. He therefore hoped that the Technical Committee would find a better solution. He supported M. Jacomet's proposal, which he thought might help the Technical Committee in this respect.

TENTH MEETING

Held on Wednesday, May 18th, 1932, at 4 p.m.

President: M. DE VASCONCELLOS.

21. TRIBUTE TO THE MEMORY OF M. INOUKAI, PRIME MINISTER OF JAPAN.

The President felt he was voicing the sentiments of the Commission in expressing his sympathy with Japan for the crime committed on the Japanese Prime Minister.

Viscount Mushakoji (Japan) thanked the President on behalf of his country.

22. DOCUMENTATION SUPPLIED BY THE UNITED STATES DELEGATION: APPLICATION OF THE PRINCIPLE OF SIMULTANEITY.

Dr. Mary Woolley (United States of America) stated that the American delegation had on that date transmitted full information on the military expenditure of the United States. The Government waived the application of the principle of simultaneity in respect of that information.

23. MEMORANDUM BY THE CHINESE DELEGATION ON GROSS AND NET EXPENDITURE.

The President pointed out that, at its last meeting, the Commission had decided to refer the question of gross and net expenditure to the Technical Committee. In the meantime, the Chinese delegation had submitted the following memorandum on this subject:

"The Chinese delegation is in general agreement with the views expressed in Chapter 7 of the Report of the Committee of Experts on Budgetary Questions in connection with the question of gross and net expenditure, with the exception of the last paragraph, which deals with cases where help is rendered to the civil population in emergencies by the defence services, and extra expenditure is thereby incurred which is sometimes repaid in part or in whole by the beneficiaries."
Inasmuch as there may arise difficulties in the interpretation of these clauses when actual cases occur which call for their application, certain clarification and amplification seem to be necessary.

While there is no objection to contemplating such eventualities, it is nevertheless to be clearly understood that, strictly, they apply only to cases in which services have been rendered to the civil population by the national army in discharging its ordinary duty within the country in the event of any internal civil commotion or natural calamity.

Subject to this reservation, the Chinese delegation is prepared to accept the recommendation of the Committee of Experts that in any of the above-defined cases the extra expenditure thus incurred should not be regarded as defence expenditure and may therefore be omitted from the returns.”

If the Chinese delegation had no objection, he proposed to refer this document also to the Technical Committee for consideration.

The proposal was adopted.

24. MEANING AND SCOPE OF THE TERM “EXPENDITURE ON NATIONAL DEFENCE” (continuation of the discussion).

(c) Private Capital invested in the Armament Industry and Auxiliary Industries: Draft Resolution submitted by the Soviet Delegation.

The President read the following draft resolution submitted by the delegation of the Union of Soviet Socialist Republics:

“Whereas a large proportion of war material is supplied to the armed forces not by Government arsenals and factories but by private companies in which the Government cannot hold shares;

And whereas private undertakings equipped for the production of war material can be utilised for military purposes by the belligerents in time of war and yield the same output as any Government factory or arsenal;

And whereas it seems desirable in the cause of disarmament to limit the growth of military power at the expense of private capital:

The Commission considers it essential:

(a) That private capital invested in the armament industry or auxiliary industries should be limited and reduced;

(b) That the Governments represented at the Conference should be requested to furnish particulars of the private capital invested in the armament industry and auxiliary industries for the same period for which they are furnishing particulars in the Model Statement communicated to the Conference.”

Before opening the discussion on the Soviet delegation’s draft resolution, the President requested the Commission to give its opinion on the primary question whether the new principle involved in the Soviet proposal was within the competence of the Commission, whether the latter could discuss the proposal, or whether it should refer it to the Bureau of the Conference which would bring it before the General Commission.

M. Jacomet (France) expressed grave doubts as to the possibility of discussing in the National Defence Expenditure Commission a proposal for limiting and reducing capital invested in private industries by private individuals. He pointed out that the control of the private manufacture of arms, ammunition and war material was one of the questions referred to the General Commission in accordance with the co-ordination table of the draft Convention (document Conf.D.102). It was evident that any measure for limiting and reducing private capital invested in the armament industry could be only one of the forms of the limitation or control of the manufacture of armaments by private industry. The French delegation therefore considered that the Expenditure Commission could not examine the Soviet proposal until it had been brought before the General Commission, and then only if the General Commission referred it to the Expenditure Commission for consideration from the financial point of view.

The President said that it was for the reasons just given by the French delegate that he had wished to draw the attention of the Commission to this preliminary question.

Colonel Karmann (Germany) thought the Soviet proposal went to the root of the entire question of limitation. The Expenditure Commission could not, however, for the moment, deal with the question of limitation, but it could concentrate its efforts on that of publicity,

1 See Minutes of the ninth meeting of the Committee.
in which the objections raised by the French delegation had not the same force. He therefore proposed to consider the question merely from the point of view of publicity and to leave it to the General Commission to examine the Soviet proposal from the point of view of limitation.

M. LOUNATCHARSKI (Union of Soviet Socialist Republics) said his intention in submitting this proposal was to emphasise the necessity of submitting State capital and private capital invested in the armament industry to the same control and publicity. He did not, however, press for his proposal to be discussed immediately by the Expenditure Commission, and reserved the right to raise it in the General Commission.

M. ZEUCEANO (Roumania) was also of opinion that the Expenditure Commission was not competent to examine this question. The limitation of capital invested in private industry was, as the President had pointed out, a new question. It was for the Bureau of the Conference to decide what body was competent to deal with the question.

Viscount MUSHAKOJI (Japan) said there were two aspects of the Soviet proposal—a practical and a theoretical aspect. From the theoretical point of view, the proposal implied a principle on which the Commission could not take a decision without exceeding its terms of reference. From the practical point of view, it must first be known what was the exact scope of the armament industry or the auxiliary industries. The Japanese delegation therefore thought the Soviet proposal should be referred to the General Commission.

The Commission decided to refer the Soviet proposal to the Bureau of the Conference for submission to the General Commission, and the entire question of subsidies, loans and participations to the Technical Committee.

(d) Special Expenditure caused by the Reduction of Armaments.

The PRESIDENT pointed out that the Committee of Experts on Budgetary Questions had dealt with this subject in Chapter 9 of its report. It had considered that the fact that expenditure might be associated with a reduction of forces of national defence did not constitute a sufficient reason for excluding such expenditure from the returns. If none of the members of the Commission wished to express an opinion on this question, he would propose to refer it to the Technical Committee.

M. JACOMET (France) approved in principle the conclusions drawn in Chapter 9 of the Experts report. He wished, however, to draw attention to the considerable expenditure which might result from the cancellation of large contracts for the supply of war material as a result of the conclusion of a Convention for the limitation of armaments. At the moment of signing such a Convention, it might be necessary to cancel large contracts—for instance, for naval construction. In this case the Governments would be obliged to pay considerable sums to the contractors. The public would find it hard to see why such expenditure should be included for limitation purposes.

The French delegation therefore proposed that the question of expenditure resulting from the cancellation of contracts should be examined afresh by the Technical Committee. If that Committee, nevertheless, found good reasons in favour of including such expenditure in the Model Statement, such reasons should be made known.

The Commission referred the question to the Technical Committee for examination with due reference to M. Jacomet's remarks.

(e) Extra-Budgetary Expenditure: German Proposal.

The President pointed out that this question had been dealt with in Chapter 10 of the report by the Committee of Experts on Budgetary Questions, which had arrived at the conclusion that, if the Governments in good faith included in the Model Statement all extra-budgetary expenditure which could reasonably be ascertained, and if the other items which could not be ascertained were treated as coming within the scope of the derogations dealt with in Chapter 4 of the report, the difficulties arising in this connection would not be serious. The examination of the practical difficulties connected with this question was a more important task, which the President proposed to entrust directly to the Technical Committee.

The President then read the text of the German proposal, which was worded as follows:

"Considering the fact that a certain number of goods and services required by the national defence organisations are not paid for in cash and therefore do not appear in the budget expenditure, the German delegation proposes the following:

"Countries utilising such services and goods shall fill up a corresponding table annexed to the Model Statement. The form and details of this table shall be fixed by the Technical Committee of the Commission."

He drew attention to the intimate connection between the German proposal and the question of extra-budgetary expenditure. Perhaps the German delegate would give some explanations on that point.
Colonel KARMANN (Germany) explained that the German proposal did not refer to extra-budgetary expenditure properly so called, which must always be included in the Model Statement. Its aim was to fill a gap in the Experts' report, which did not mention services not paid for in cash. It was the figures relating to these services that the German delegation wished to have included in a special table annexed to the Model Statement.

Mr. LYON (United Kingdom) agreed that this important question should be referred to the Technical Committee. He noted that the first sentence read: “Countries utilising such services and goods shall fill up a corresponding table annexed to the model statement.” He asked whether it was proposed that the Commission should decide on this measure or should merely refer the question of the desirability of filling up such a table to the Technical Committee.

The President replied that there was no question of the Commission taking a decision, but merely of requesting the Technical Committee to examine the question and to draw up proposals on the subject.

M. RADULESCO (Roumania) asked Colonel Karmann to give further details regarding his proposal, so that the Technical Committee might take his explanations into account when considering the question.

Colonel KARMANN (Germany) would be satisfied if the proposal were referred to the Technical Committee for examination. He thought it unnecessary to give further details at the present time, as he had already done so at the previous meeting.

M. DE MODZELEWSKI (Poland) pointed out the difficulty of defining extra-budgetary expenditure which should be regarded as military expenditure and should as such be included in the Model Statement. He thought the Technical Committee should deal especially with the question as to what extra-budgetary expenditure should be included in the Statement. As an example, he mentioned the Red Cross, which, while not a military institution, rendered services to the army in war-time. Hardly any country had included expenditure for the Red Cross in the Model Statement. He proposed to draw the special attention of the Technical Committee to this point.

The Commission decided to refer the question to the Technical Committee, with a request to examine it with due reference to the remarks made by the members of the Commission.

(f) Definitions in the Draft Annex not exhaustive.

The President pointed out that the Committee of Experts had inserted in the draft Annex to the Convention a provision to the effect that the definitions in that draft were not limitative as regards either the objects of expenditure or the sources of such expenditure. He supposed that the Commission would unanimously share the apprehensions on which this proposal by the Committee of Experts was based.

The Commission decided to accept the principle that the definitions in the draft Annex on Limitation and Publicity were not limitative, and to request the Technical Committee to prepare a text on this subject.

(g) Carrying forward of Credits.

The President explained that the Committee of Experts had pointed out in Chapter 16 of its report that, with a system of limitation based on actual expenditure and not on credits voted, the question of carrying forward credits from one year to one or more subsequent years did not arise. The Committee had, however, been led to examine the more general question of variations in expenditure from one year to another. This question would be dealt with when the Commission discussed points connected with the fixing of limits.

General TANCZOS (Hungary) pointed out that the Committee of Experts had been requested by the Preparatory Commission to “determine the conditions under which the carrying forward of credits from one budgetary year to the next year or following years might be effectuated”. In the last paragraph of Chapter 16 of its report, the Committee of Experts concluded that the carrying forward of credits was in the first place a phenomenon of a juridical character, and that, from this point of view, it played no part in the machinery for the limitation of expenditure effectuated in the course of each year, to whatever year the credits used were referred. As the report by the Committee of Experts did not provide for a settlement of this question, the Hungarian delegate wished to draw attention to the fact that it would be desirable, from the point of view of publicity, to regulate the carrying forward of credits in as uniform a manner as possible. By such a settlement publicity would become more clearly defined. It was evident that, in cases where the carrying forward of credits from one year to another were possible without fresh legislative authorisation, there could never be complete publicity by means of
closed accounts showing credits actually used. That was true, in particular, in cases where the carrying forward of credits might be effected over a number of years without legislative authorisation. In this way, considerable reserves could be accumulated and utilised at a given moment without an account being rendered of the utilisation of balances of credits over several years until a later date and possibly even after the lapse of a number of years. The Hungarian delegation therefore thought the Technical Committee should be asked to investigate the question whether a settlement could be found which would guarantee equal conditions to all States in respect of the limitation and publicity of budgets from the point of view also of the carrying forward of credits.

M. JACOMET (France) said the French delegation supported the Hungarian delegation’s proposal. It was indeed of the greatest interest to ascertain what resources a Government had at its disposal without being obliged to obtain a fresh authorisation from Parliament. The question of the carrying forward of credits was especially connected with Table C, which related to amount of block credits outstanding. Block credits should also include outstanding credits carried over from one year to another without any fresh authorisation being required from the legislature. In this connection, M. Jacomet thought it would be useful to give some explanations regarding the scope and origin of the statement contained in Chapter 16 of the report of the Budgetary Experts. From the beginning of the Experts’ work, the question of the carrying forward of credits had taken a prominent place. Many States were able, under their financial legislation, to expend over a number of years sums voted during one particular year, especially in respect of orders for materials. In some countries, the right to expend these sums over a number of years was not subject to any condition, while other countries were obliged to obtain a fresh authorisation from Parliament in order to utilise amounts not expended at the end of a financial year. Whatever the particular conditions of internal legislation regarding the carrying forward of credits, it was natural, in drawing up a convention for the limitation of expenditure, to grant those States the right to the benefits accorded to them by their internal legislation. It was for this reason that the Preparatory Commission had requested the Committee of Experts to “determine the conditions under which the carrying forward of credits from one budgetary year to the next year or following years might be effected”. For the reasons given in Chapter 5 of the report, the Committee of Experts had been led to reject any proposal. It was for this reason that the Preparatory Commission had requested the Committee of Experts to “determine the conditions under which the carrying forward of credits did not in itself exist in a system of limitation based on actual payments. Obviously the Technical Committee should give expression to this conception which aimed at limiting the credits voted. It had reached the conclusion that the limitation of expenditure could refer only to payments. In these circumstances the question of the carrying forward of credits, which would have played an essential part in a limitation based on the credits voted, obviously lost a great deal of its juridical importance. In a limitation of expenditure based on payments effected, the carrying forward of credits occurred only to the extent that the right of using the credits carried forward facilitated variations in the volume of payments during a number of consecutive years. The idea of carrying forward credits was therefore, so to say, submerged in the more general phenomenon of the inevitable variations in the volume of expenditure during a number of years. Consequently, the question of carrying forward credits did not in itself exist in a system of limitation based on payments. The French delegation therefore proposed that the Expenditure Commission should accept the negative conclusions of Chapter 16, which he considered would become constructive when fixing the limits of expenditure and taking into account the variations of such expenditure from one year to another.

Mr. Lyon (United Kingdom) had found M. Jacomet’s explanations of great interest. He wished to be clear on one point. M. Jacomet had asked the Commission to accept the negative principle. He understood this to refer to the statement in the last paragraph of Chapter 16 of the report by the Committee of Budgetary Experts that the carrying forward of credits was a phenomenon of a juridical character, and from this point of view played no part in the machinery for limitation proposed by the Committee.

M. JACOMET (France) replied that his intention was to ask the Commission to accept the principle that the carrying forward of credits played no part in a system of limitation based on actual payments. Obviously the Technical Committee should give expression to this principle.

M. PIPINÉLIS (Greece) drew attention to a point of particular importance to his country. The question of the carrying forward of credits lost its importance in view of the fact that the problem of the variations in expenditure from one year to another had been examined in a special chapter of the Experts’ report—namely, Chapter 17. In that chapter, the Committee of Experts had reached the conclusion that a certain measure of elasticity should be introduced in fixing the limits of expenditure of the contracting parties. For this purpose it had recommended a system sufficiently elastic to take into account variations which were normally possible, while at the same time offering the necessary guarantees as to the possibility of accumulating reserves which might be used in a given year. The Hellenic delegation would not like the examination of this question by the Technical Committee to lead to the adoption of a more rigid system in respect of the carrying forward of credits, which would oblige States to reform their budgetary methods and would thus impose on the financial departments of the various States a burden which, under existing conditions, could not be borne.
Colonel Karmann (Germany) pointed out that the Greek delegate had just raised the most important question of the entire problem of limitation—namely, the question of transfers, which was dealt with by the Committee in Chapter 17. The Commission was at this moment dealing with the question of the carrying forward of credits, which was related more particularly to publicity, while the question of transfers concerned exclusively the problem of limitation, with which the Expenditure Commission could not deal at the present moment. The German delegate agreed entirely with the view expressed by the French delegate.

Mr. Lyon (United Kingdom) noted that the Greek delegate had referred to questions coming under Chapter 17 of the report. This chapter raised many difficult questions, which would have to be carefully examined by the Technical Committee. As this chapter was not on the agenda of the present meeting, he suggested that it was not the moment to discuss it.

M. Pipinelis (Greece) explained that he had referred to Chapter 17 on account of the connection which he saw between the question of the carrying forward of credits and that of variations in expenditure. He had wished to draw the attention of the Commission to the Greek delegation’s wish that the elasticity of the system recommended by the experts in Chapter 17 of their report should not be affected.

The Commission decided to refer the question of the carrying forward of credits to the Technical Committee.

(h) Tables C, D, E and F appended to the Model Statement.

The President pointed out that this point had been inserted in the Commission’s programme of work solely for reasons of method. The Commission would no doubt agree that there could be no question of studying this point before examining questions of substance to be settled before the annexed tables could be adopted, which could take place only with the help of a report by the Technical Committee.

M. Jacomet (France) shared the President’s view. He wished, however, to make certain statements regarding Table C for the benefit of the Technical Committee. The Committee of Experts had drawn up Table C so that the States might include in it block credits voted once for all in a single budget which might be expended over a number of years. The French delegation thought it was indispensable to ensure the fullest publicity for sums remaining available on these block credits, which were to be understood as including credits carried forward in the previous year when this could be done without further authorisation by Parliament. The title of Table C as drawn up by the Experts needed to be made clearer, however. It referred to amounts outstanding at the end of the financial year. The conception of credits used varied in different countries according to the characteristics of the respective budgetary legislations. In some countries a credit was used to cover a commitment to enter into expenditure; in other countries, to cover liquidation; in others, to cover the issue of an order for payment; and, in others, lastly, it was used for the actual payment. If each country filled in Table C on the basis of the conception adopted by its internal legislation, this would result in differences between the figures included in the table. For the same voted credit the amount of the credit regarded as used would vary according to the methods of accountancy in the different countries, and the outstanding portion would be represented by a different figure in each case. It was essential to bring this question before the Technical Committee and to request it to draw up instructions for filling in Table C. This was a technical question which should be settled by a technical committee.

The President said the Technical Committee would take these remarks into consideration.

Colonel Karmann (Germany) emphasised the importance of the question raised by the Hungarian delegation. The important point was publicity of expenditure. The German delegation felt that Table C did not entirely fulfil the requirements of proper publicity. It might be useful for the Technical Committee to examine whether it was impossible to arrive at a specialisation of outstanding credits in accordance with the heads of the Model Statement.

M. Jacomet (France) said the French delegation would gladly agree to a proposal to discriminate between credits carried forward from one year to another, provided it was understood that this referred to credits carried forward without special authorisation of Parliament.

The Commission decided to refer the question of Tables C, D, E and F appended to the Model Statement to the Technical Committee.
25. CLASSIFICATION OF EXPENDITURE ON NATIONAL DEFENCE.

(a) The Model Statement.

The President explained that Chapter 2 of the report by the Committee of Experts on Budgetary Questions dealt with questions regarding the form of the Model Statement. The Commission would no doubt consider it preferable to finish the discussion of various questions of substance before entering into that of the form of the Model Statement and the title of the headings of the tables annexed thereto. The Technical Committee would no doubt in due course have a number of proposals to submit on this subject. Among the questions which the Expenditure Commission would have to decide was one which had been raised in the report by the Committee of Experts—namely, should the expenditure on armed forces (and formations organised on a military basis) be shown separately for the forces stationed in the home country and those stationed overseas? He pointed out that the decision to be taken by the Expenditure Commission might be affected by decisions taken by other commissions in respect of tables relating to effectives.

The President proposed to refer Chapter 2 to the Technical Committee unless the members of the Commission had any remarks to make on this subject.

M. DE MODZELEWSKI (Poland) thought it was impossible to discuss the form of the Model Statement before other questions relating to the contents of the Model Statement had been settled, such as the question of services not paid for in cash, which had been raised by the German delegation. He also proposed to refer Chapter 2 to the Technical Committee, which, however, could not examine it until it reached the end of its work.

The Commission decided to refer Chapter 2 of the Experts' report to the Technical Committee.

(b) Changes in Appropriation of Funds.

The President reminded the Commission that this question had already been discussed under the heading relating to secret funds and changes in the appropriation of funds, and that it had agreed to refer the question to the Technical Committee.

ELEVENTH MEETING

Held on Thursday, May 19th, 1932, at 3.30 p.m.

President: M. DE VASCONCELLOS.

26. CLASSIFICATION OF EXPENDITURE ON NATIONAL DEFENCE (continuation).

(c) Contents and Classification of the Subheads in the Model Statement.

The President pointed out that the Committee of Experts on Budgetary Questions had considered it impossible to give a synthetic definition of expenditure on national defence. It had decided in 1927 to draw up a list of such expenditure as a basis for its work; it had revised that list at its last session (pages 29 to 34 and 41 and 42 of the report). It was evident that the Conference would have to approve and amend the list drawn up by the Committee. Moreover, it would appear that this task could not be accomplished at a plenary meeting. In its report, the Committee of Experts on Budgetary Questions had mentioned a certain number of points relating to the contents and classification of the subheads, and these questions would have to be settled by the Conference. In examining the documents supplied by the Governments, the Technical Committee would no doubt find a great number of points on which special decisions would have to be taken. The President was sure that the Technical Committee would be glad to receive any special suggestions which the various delegations might wish to submit. Under the circumstances, he thought it might be preferable to postpone the discussion of this chapter until the Technical Committee had submitted its report.

Colonel Ellis (India) did not wish to prejudice the conclusions at which the Technical Committee might arrive. He merely wished to state on behalf of the Indian delegation that, in view of the difficulty of making changes in the accountancy systems of the various countries, it would be desirable, as far as possible, to simplify the heads of the Model Statement. He hoped that the Technical Committee would reduce the number of these heads to the necessary minimum.

Viscount Mushakoji (Japan) agreed with the delegate of India.
Mr. LYON (United Kingdom) thought the suggestion made by the delegate of India was worthy of consideration. The smaller the number of heads, the more exact would be the figures contained in the Model Statement. All the delegations had experienced great difficulty in dividing expenditure on personnel between subheads A and B of Head I. Similarly, it was very difficult to determine the exact figure of expenditure relating to the civilian personnel referred to in subhead C of the same head. In Great Britain, for instance, it had been impossible to determine the number of civilian workmen employed in the manufacture of war material for the air force. For this reason, it had not been possible to state the figures for this force, while the corresponding head for naval and land forces had been filled in. Mr. Lyon shared the view of the delegate of India, though he also did not wish to prejudice any conclusions at which the Technical Committee might arrive.

M. DE MODZELWESKI (Poland) was of opinion that the Commission and the Technical Committee could not discuss the question of the classification of the subheads of the Model Statement until it knew the results of the general discussion on this question in the Conference. It was true that the experts had a tendency to increase the number of headings. The Polish delegation was in entire agreement with the delegates of India and the United Kingdom as regards the necessity of simplifying, as far as possible, the Model Statement, which should not have too many subheads.

M. RADULESCO (Roumania), Chairman of the Technical Committee, said that the Committee would note these remarks and endeavour to attain the greatest possible clearness and accuracy, while avoiding, as far as possible, any unnecessary increase in the number of headings in the Model Statement.

M. JACOMET (France) said the Committee of Experts on Budgetary Questions had done all it could to reduce, as far as possible, the number of headings in the Model Statement. While agreeing with the recommendations which had just been made, he nevertheless thought it necessary to have a certain number of headings which had a definite meaning and gave definite indications. The double aim of simplicity and accuracy should be pursued and the essential elements of national defence expenditure should be made clear. He was of opinion that, to this end, a middle course should be taken and a Model Statement should be adopted which would be both simple and complete.

The PRESIDENT said the Technical Committee would take note of these remarks.

(d) Definitions in the Draft Annex not exhaustive.

The PRESIDENT remarked that, at its meeting on the previous day, the Commission had approved the principle proposed by the Committee of Experts to the effect that the definitions of the draft Annex were not limitative as regards either the objects of expenditure or the sources of such expenditure. It had been left to the Technical Committee to draw up a text expressing this principle. The decision taken referred both to the question of classification and that of the meaning and scope of the term "expenditure". He did not think it was necessary to open a discussion on this point.

(e) Separation of Expenditure for the Three Forces.

The PRESIDENT pointed out that the Preparatory Commission had instructed the Committee of Experts on Budgetary Questions to examine the possibility of a separate limitation of expenditure on land, naval and air forces (paragraph 177 of the Preparatory Commission's report). The Committee of Experts had reached the conclusion that there was no objection, from a technical point of view, to a separate limitation of the total expenditure relating to each of the three arms. Under the decision taken by the General Commission, the question of a limitation of the special heads had been referred to the Expenditure Commission, as would be seen by the co-ordination table (document Conf.D.102, page 22), although the actual principle of the limitation of armaments had been reserved for the General Commission. The President requested the Expenditure Commission to decide whether it thought fit to open a discussion immediately on the question of the separation of expenditure for the three forces. He reminded the Commission that the Norwegian delegate had made a proposal on this subject during the general discussion in the plenary meetings of the Conference (document Conf.D.99, page 57, paragraph 2).

M. PERNE (Yugoslavia) pointed out that in adopting Article 29 of the draft Convention, under which "the total annual expenditure of each of the High Contracting Parties on his land, sea and air forces and formations organised on a military basis shall be limited to the figure laid down for such Party ", the Preparatory Commission had left unsettled the question whether it was desirable to limit separately the expenditure relating to each of these three forces. As a practical and provisional solution, it had been decided to instruct the Committee of Experts to "examine the possibility of a separate limitation of expenditure on land, naval
The Committee of Experts, while recognising the difficulties which would be encountered in making a detailed differentiation between the expenditure on the three kinds of forces, had nevertheless settled the question in the affirmative. The Yugoslav delegation wished to point out that it could not agree with this point of view. The Yugoslav delegation was leaving on one side the political advantages or disadvantages of a separate limitation and was dealing only with the technical aspect of the problem. Yugoslavia had only one Ministry of National Defence. When the Model Statement had to be filled in, the Yugoslav Government had encountered considerable accountancy difficulties in discriminating between expenditure with a view to dividing it up among the three forces. The Yugoslav delegation was therefore of opinion that a separate limitation of the forces was not advisable. It hoped that the Technical Committee would take its remarks into consideration.

The President pointed out that the present debate was merely provisional, as there was as yet no real basis for any discussion. The principle of budgetary limitation had not been adopted by the General Commission and Article 29 remained in suspense.

M. De Modzelewski (Poland) agreed that the principle of limitation had not yet been discussed and would probably not be discussed by the Expenditure Commission. Nevertheless, the Committee of Experts on Budgetary Questions had been instructed by the Preparatory Commission to "examine the possibility of a separate limitation of expenditure on land, naval and air forces". It was therefore useful for the Expenditure Commission to open a discussion which was likely to help the other Commissions and the Conference by pointing out elements which, from a technical point of view, might be unfavourable to a separate limitation of national defence expenditure on each of the three forces. There were therefore grounds for carrying out the discussion on a wider basis than that suggested by the President.

In the first place, as far as publicity on expenditure was concerned, a distinction should be made between countries which had only one Ministry of National Defence and those which had two or three. It was evidently simpler, from the point of view of accountancy practice, for countries with three Ministries to give separate figures for each of the forces. Nevertheless, there was a danger that such a separation might be merely theoretical for, in urgent cases, the various Ministries might be obliged to transfer from one Ministry to another, for instance, sanitary or engineering material, the purchase of which had been placed separately to the account of each Ministry. The difficulties were still greater in countries which had only one Ministry and which purchased certain categories of material for all the three forces without making any distinction in their accounts.

Moreover, a distinction must be made between countries manufacturing war material and countries which were obliged to purchase such material from abroad. The latter were compelled, for reasons of economy, to purchase large quantities of material and to endeavour, as far as possible, to group orders together. The destination of sums expended on each of the three forces varied from one year to another, according to the requirements of national defence.

Lastly, a distinction should be made between countries which had long ago stabilised their system of national defence and possessed stocks which had been normally constituted and countries which, on account of special circumstances, had not yet established equilibrium between the various categories of expenditure and had not had the time or possibility to adapt their armaments to their new conditions of existence. These countries were obliged, in accordance with the circumstances, to concentrate their activities in regard to armaments at one time on one force and at another on other forces. The proportion between the expenditure relating to each of these categories varied therefore from one year to another. If the principle of separate limitation were adopted, countries in this position would be at a disadvantage as compared with countries whose military organisation was complete.

M. De Modzelewski therefore proposed, on behalf of the Polish delegation, that, if it were decided to limit the national defence expenditure, such limitation should apply to the total figures. He wished to point out that, if the separate limitation of the forces were admitted, the Powers that were in the special position which he had just described would be obliged to demand that higher limits of expenditure should be fixed for them, which they were far from desiring.

As regards publicity, Poland would endeavour to fill in the Model Statement as nearly as possible in accordance with the recommendations to be adopted. If this Statement proved to be inadequate, it would endeavour to make the necessary changes.

M. Hittonen (Finland) pointed out that the Committee of Experts on Budgetary Questions referred expressly in its report to the separate limitation of the total expenditure on each of the forces. The objection might be raised that it was premature to speak of the separation of expenditure before the main question of budgetary limitation had been decided, but he did not wish to prolong the discussion by purely formal considerations. The aspect of the question varied, according to whether the aim was publicity or limitation or even the reduction of national defence expenditure. If it were only a question of publicity, the objections which might be raised against separation were of a purely technical character. The small States which had only one Ministry of National Defence and only one budget for the total defence expenditure would encounter difficulties which the Committee of Experts was aware of, but did not consider insurmountable. It was possible that the accountancy problem involved in this
case could easily be solved in theory. In practice, it was somewhat complicated in view of the overlapping of all the branches of the military administration in the countries in question and of the extremely small staff at the disposal of the accountancy departments of these countries. Nevertheless, it was certain that all the countries, including Finland, would do all in their power to overcome these technical difficulties and thus to help in the work of peace.

If, on the other hand, the question were regarded from the point of view of limitation, the separation of expenditure was difficult, not only from the standpoint of accountancy, but also on account of the position of the small countries. The material means at their disposal for national defence were very restricted and must be used in the most effective and economical manner. These countries must therefore be able to concentrate their efforts in respect of armaments on the forces which appeared most suitable for their particular situation. For that purpose, they must enjoy great freedom in respect of the transfer from one forces to another of the annual amounts allotted to them. This principle had been adopted in the draft Convention for countries with fleets of small tonnage. These countries had been authorised to make transfers between the various categories of vessels.

It should not be forgotten that the small countries were, for the most part, obliged to order their war material from abroad. For reasons of economy, they were therefore obliged to place all their orders at one time. In other words, in a given year they had to order land material, while in the following year they would order naval material and in the third year would concentrate their efforts on the air force. Under these circumstances there could be no question of a separate limitation of the total expenditure on each of the three forces, as this would mean a certain average level of expenditure for each of the three forces every year. It was true that provisions had been made for variations in the expenditure from one year to another within the limits of a certain percentage, but, in the countries in question, the variations for the different forces might be very considerable, although the total budget varied very slightly.

In order to take the special situation of these countries into account, it would be fair either to fix a somewhat high percentage of variation for each force separately, which would mean that these limits would lose their practical value in respect of other countries, or to fix two different percentages, which would appear difficult to put into practice. The Finnish delegate suggested a solution which might overcome these difficulties. By analogy with the principle adopted for the fleets of small tonnage, an exception might be made in favour of the small countries, whose system of national defence did not constitute a threat to anyone. This exception would consist in not imposing on the small countries the obligation to limit the budgets of the three forces separately. It would apply to States whose total budget did not exceed a certain amount. Such a solution would enable the small States to maintain their armaments on the lowest possible level, while devoting the necessary minimum of resources in turn to each of the three forces. The small States would thus be dispensed from the obligation of creating their own war industry.

M. Schmidt (Estonia) said that, in view of the remarks made by the previous speakers, it was unnecessary for him to go into the question at length. He would merely make some observations concerning his country in particular. In spite of the difficulties due to the fact that numerous countries had only a single Ministry of National Defence, the Committee of Experts, whose competence was beyond doubt, had thought fit to retain the principle of separate limitation. It should, however, be borne in mind that the small countries which had an insignificant army, which had not separate ministries for the different forces and which had important departments common to the three forces would find it difficult to supply separate figures for each force. Even if they reorganised their accountancy system, which was difficult, they could not reach a sufficient degree of accuracy and their figures would be merely approximate, while the present figures were clear and precise. He therefore suggested that the Technical Committee should be requested to examine this point again, and to bear in mind that the actual situation varied in different countries. He hoped that a simple and equitable formula would be found. From this point of view, the Finnish delegate's suggestion appeared to him to be very reasonable.

M. Sandler (Sweden) pointed out that Chapter 13 of the Experts' report did not aim merely at the separation of the total expenditure on the three forces, but also at the possibility of isolating the categories of war-material. In this connection, he recalled that there was a Swedish proposal regarding the limitation of the materials of the air forces (document Conf.D.I-io). This proposal had not been referred to the Expenditure Commission; on the other hand, a Norwegian proposal, which appeared in Point 10 of the Coordination Table, had been referred to the Commission. The question of budgetary limitation was not on the agenda of the Expenditure Commission; it had been reserved for the General Commission. He did not ask that the Swedish proposal should be discussed; he merely drew attention to the importance of the last paragraph in Chapter 13 of the Experts' report, which stated that "the Committee had to examine the possibility of isolating the heading relating to air material. It came to the conclusion that each of these three elements can, in general, be isolated even more closely than the total expenditure on each of the three forces."

The Swedish delegate considered that the Technical Committee should give an opinion on this question and state whether the conclusions of the Experts' report should be adopted.

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He had no intention of expressing an opinion on the substance of the question but, as other
speakers had done so, he stated that, in his opinion, the separation of the expenditure on the
three forces was necessary, if the Model Statement was to be a practical instrument for the
purposes of the Convention.

Colonel Karmann (Germany) assumed that most delegations would share the views
expressed by the delegate of India. He agreed that there was much weight in the objections
raised by the Yugoslav delegate. The German delegation had always thought that it would
be impossible to separate items of expenditure for the three forces. The political point of view
should also be borne in mind. If it were impossible to separate the expenditure, it would
become very difficult to enforce Articles 10 and 24 of the draft Convention.

Colonel Farsky (Czechoslovakia) supported the views of the Yugoslav delegate. As far
as Czechoslovakia was concerned, there would be accountancy difficulties, since that country
had only one Ministry of National Defence. He would not, however, insist on this point of
view, if the Conference decided that separation was possible.

Viscount Mushakoji (Japan) was opposed to the separation of expenditure. In Japan
there was no separate Air Ministry, and the air force formed a part both of the army and of the
navy. It was therefore impossible to make an exact separation as regards the air force.

M. Jacomet (France) was far from being as pessimistic as most speakers regarding the
possibility of separating expenditure. He based his conviction on the report of the Budgetary
Experts. The Committee which had drafted that report included representatives of twelve
States with very dissimilar budgetary systems. For instance, some had only one Ministry for all
forces, and others had no Air Ministry. Nevertheless, the Committee had reached the conclusion
that separation was possible. Moreover, in the information given in accordance with the
recommendations contained in that report a separation in expenditure had, in fact, been made
in most cases.

He would suggest that the Technical Committee be requested to ascertain, from the
point of view of publicity, how each State made the separation in practice and the degree of
watertightness between the three groups which had been attained. In this way the Technical
Committee could prepare the way for a subsequent discussion of the political aspect of the
question in the General Commission. He therefore proposed that the Technical Committee
be requested, during its examination of the documents submitted to it, to consider the
difficulties encountered by each country.

He requested that the Finnish proposal should be distributed in writing. While the remarks
made by the Finnish delegate had been intended primarily to refer to small countries, they
might also apply to the difficulties experienced by other countries.

M. de Modzelewski (Poland) agreed with the French delegate. It was for the Technical
Committee to decide, in respect of publicity, what difficulties were encountered and how they
could be overcome. The Technical Committee's view could be used in order to reach a general
decision as to whether separation was useful or not. If a separate limit were fixed for each
force, this would have to be higher, in order to deal with any exceptional circumstances which
might arise, and thus the general limit of armaments would be increased. This was contrary
to the aim of the Conference.

He agreed with the French delegate that this matter should be referred to the Technical
Committee, which should begin with the question of publicity.

General Barberis (Italy) thought it was too early to reach a decision, since only five
States had deposited their documentation. It was therefore preferable to wait until the
Technical Committee was in a position to give a technical opinion. In this respect he agreed
with the Swedish delegate's view, as supplemented by the French delegate.

M. Sandler (Sweden) said the documents he had seen gave no cause for pessimism. He
had no objection to the Technical Committee seriously considering all the difficulties of the
case in the light of the information it had received.

Mr. Lyon (United Kingdom) understood that M. Jacomet proposed to refer the general
question under Chapter 13 to the Technical Committee. He agreed with this view. He asked,
however, whether this examination was to be confined to the question whether the Model
Statement was a practical instrument for purposes of publicity only or also for limitation, and
whether the latter aspect was to be excluded from the work of the Technical Committee.
M. Radulesco (Roumania), Chairman of the Technical Committee, said that the question contained in Chapter 13 had two aspects: in the first place a political aspect, which did not concern the Expenditure Commission, and in the second place a technical aspect. The latter could be approached either from a theoretical or a practical point of view. If the Commission considered the technical aspect only from a theoretical point of view, no progress would be made. The object of the Technical Committee must therefore be to consider the question from a practical point of view. For this purpose it had drawn up a memorandum (document Conf.D./C.D./C.T.32(I)) for its own use, as a guide in examining the documents provided by the various Governments. The portion of the memorandum referring to the Model Statement was divided into two parts: (1) universality of the expenditure, and (2) classification of the expenditure. Under the latter heading the first question was:

"Do the Model Statements of the several countries show separately the expenditure on"

"(a) Land, naval and air forces;"

"(b) Armed forces and formations organised on a military basis;"

"(c) Forces stationed at home and forces stationed overseas;"

"(d) Heads I to IV;"

"(e) Subheads A to N?"

"Has it been possible to make the above divisions by the use of the figures contained in the closed accounts?"

This was followed by question 2:

"Where these accounts have been found inadequate for that purpose, has this inadequacy been overcome (a) by the use of figures contained in administrative returns, (b) by the use of co-efficients based on the budget, or (c) by what other method?"

It was only when the Technical Committee had concluded its work and had reported whether the separation of expenditure was possible that the Expenditure Commission could decide the political question. He thought everyone would agree that no decision could be reached at the present time.

Colonel Karmann (Germany) thought the United Kingdom delegate had raised a question of great interest. He was of opinion that the Commission and the Technical Committee were qualified to study the whole sphere of publicity and limitation in connection with Article 29 of the draft Convention, which provided for the limitation of the total expenditure of each contracting party. If the Technical Committee decided that separation was impossible, it would be difficult to reach a satisfactory result in respect of Articles 10 and 24.

The President proposed to adjourn the discussion until the following meeting. By that time the Finnish delegate's proposal would have been received in writing, and the members of the Commission would have had time to consider this complicated technical question.

It was decided to adjourn the discussion.

(f) Tables A and B appended to the Model Statement.

The President presumed that the Commission would wish to follow the same procedure in respect of Tables A and B as in the case of Tables C, D, E and F—namely, to refer them to the Technical Committee.

This proposal was adopted.


The President remarked that the Technical Committee, in studying the procedure for the examination of information supplied by the Governments, had already pointed out the value of the reconciliation tables to be furnished by them. These tables would show how each figure entered in the Model Statement was extracted from the various chapters of the accounts in question or from returns from other sources. The Technical Committee would no doubt be led to make a thorough study of this question, in order to submit recommendations on the subject.

He reminded the Commission that at a previous meeting the German delegation had submitted the following proposal:

"The reconciliation tables are to be submitted on a uniform model in accordance with the principle that the Model Statement must be drawn up on a uniform basis."

1 See page 18.
Colonel Karmann (Germany) said he did not wish to trouble the Technical Committee with this question at the present time. It was rather a matter for the future. The object of his proposal was to attain greater clearness, not only in the figures, but in their presentation. He thought the budgetary method to be used should be so clear that the man in the street could understand it. Unfortunately, the report of the Budgetary Experts had not always reached this high aim. With regard to the Model Statement, he was not in favour of any derogations. All Model Statements should be filled in by all States exactly in the manner laid down. Some derogations might, however, be allowed in the reconciliation table. He hoped the Technical Committee would make the table uniform for all States.

M. Radulesco (Roumania), Chairman of the Technical Committee, said the reconciliation table was essential for examining the Model Statement. It offered a means of penetrating into the accounting systems of the various countries. As Chapter 14 of the Experts' report said, the reconciliation table was intended to show how each figure inserted in the return was taken from the various subheads in the appropriation accounts or from figures obtained from other sources. The importance of this question would be clear when it was considered that the closed accounts represented a faithful picture of the budget, while the Model Statement was drawn up especially for the purposes of the Convention. The reconciliation table was a document showing the relation between these two sets of figures. It enabled the two main objects of the Model Statement—i.e., universality of expenditure and classification of expenditure to be reached.

The Technical Committee had not prepared a model reconciliation table and had left the States full liberty in this matter. He thought that the States might choose different methods of drawing up the reconciliation table and he therefore approved the German proposal which aimed at uniformity. He suggested that this question be referred to the Technical Committee, which could either begin immediately to draw up a model reconciliation table on a theoretical basis or could defer this work until it had gained further experience in the light of the documents submitted by the various countries. He was in favour of the latter method, the advantages of which were obvious. The Technical Committee would be in a position to examine the different methods used by the various countries and to select the best.

M. Sandler (Sweden) agreed with the German proposal, and also thought it was a question for the future. He had had an opportunity, in the Sub-Committee, of appreciating the difficulty of making out reconciliation tables. The Technical Committee had asked for such tables to be supplied but had not specified the form. As a result there was great diversity in these tables. In many cases they were inadequate and made it impossible to examine the documents. Most States had had to do considerable extra work, in order to bring their documents into line with the requirements of the Technical Committee. He was glad to note, however, that all delegations had shown the greatest desire to help the Technical Committee.

Among the reconciliation tables submitted there were five which were more or less approved by the Technical Committee—namely, those of the United Kingdom (with regard to which he paid a tribute to the British Admiralty figures), Switzerland, India, Sweden and France. He thought these examples might assist other countries in drawing up suitable tables. For the future, however, he suggested that the Technical Committee might examine the question of a model reconciliation table.

M. Jacomet (France) agreed with the German delegate as to the necessity for a uniform model.

It was agreed to refer the question of the reconciliation tables, together with the German proposal, to the Technical Committee.

TWELFTH MEETING.

Held on Tuesday, May 24th, 1932, at 3.30 p.m.

President: M. De Vasconcellos.

28. Documentation to be supplied by Portugal.

M. De Quevedo (Portugal) said the closed accounts of the army and the replies to the questionnaire relating to the budgetary systems would be deposited by the Portuguese delegation during the day. The closed accounts of the navy would be deposited shortly. The Portuguese delegation stated that it waived the application of the principle of simultaneity.
29. CLASSIFICATION OF EXPENDITURE ON NATIONAL DEFENCE (continuation).

(e) Separation of Expenditure for the Three Forces (continuation).

The President recalled that, at the last meeting, it had been agreed that the Finnish and Polish proposals should be submitted in writing. The texts were as follows:


"The Finnish delegation,

"In view of the very restricted financial resources of certain countries and in view of the fact that such countries are, in consequence, compelled to provide for their national defence policy in the most practical and efficient manner possible by combining various departments of military administration, by always concentrating upon those weapons which give the greatest efficiency in relation to cost, and by spreading over several budgetary periods orders for each of the three arms, more particularly in cases where there is no national armaments industry;"

"In view further of the fact that the armed forces of small States of this kind cannot be regarded as a threat to anyone:

"Proposes that, in the event of separate budgetary limitation or reduction of budgetary expenditure for the three arms;

"Any State whose annual expenditure for national defence does not exceed the sum of . . . million gold francs shall be exempt from the obligation to limit or reduce separately expenditure incurred for the three arms."


"In view of the special position of countries which, as a result of recent historical events, have had neither the time nor the possibility of developing or harmonising the various categories of their national defence, so that they are obliged to concentrate the expenditure sometimes on one kind of armament and sometimes on another,

"The Commission requests its Technical Committee to examine the practical difficulties of realising at present the separate limitation of expenditure between the three forces for the States in the position mentioned above."

M. Hiitonen (Finland) thought it unnecessary to repeat the reasons given at the previous meeting for which Finland and the other countries in the same position could not accept separate limitation for each of the three forces if the principle of budgetary limitation were adopted. Doubtless, several other possibilities existed of conferring on these countries a greater liberty of action in the arrangement of their military expenditure. Nevertheless, the Finnish delegation thought it had chosen the most practical solution and the one best adapted to the circumstances. Other reasons might be given in support of the Finnish proposal, such as the historical considerations mentioned by the Polish delegation. The Finnish delegation had wished to confine itself to the permanent reasons which would always apply to a certain category of States. Naturally, this did not prevent consideration being given to all the other arguments which might be advanced in favour of the proposal.

M. Jacomet (France) recognised the value of the Finnish proposal. He would, however, point out, on behalf of the French delegation, that, in the event of the adoption of the principle of limiting national defence expenditure separately for each of the three forces, any proposal which tended to exempt States with budgets which were less than a certain amount raised a definitely political question the substance of which could not be discussed, by the Commission. The proposal had, nevertheless, a very interesting technical aspect, as it indicated the special technical difficulties which prevented certain States from accepting separate limitation for each force. He thought it would be very useful to refer the proposal to the Technical Committee, which when examining the documents furnished by the various States, would be in a position to study the special case of the countries referred to in the Finnish proposal. In making this suggestion, the French delegation hoped that the Technical Committee, in its examination, would take into account the remark made by the Committee of Experts on Budgetary Questions in Chapter 13 of its report, namely, that the difficulties were reduced by the fact that the limitation was applied to actual payments. This remark was of value even for countries encountering special difficulties in this respect. Moreover, even for these countries, the question of the separation of expenditure retained all its importance from the point of view of publicity.

M. Jacomet was further of opinion that the Technical Committee might be requested to extend its study to countries which, for reasons other than those mentioned by the Finnish delegation, encountered serious technical difficulties in accepting the principle of separate
Committee might, after a very general examination, express its opinion whether the formula limitation. From this point of view, the Polish proposal formed a useful supplement to the technical difficulties mentioned by the Finnish delegation. The Technical Committee might, after a very general examination, express its opinion whether the formula limitation. From the point of view of publicity, the technical difficulties, which were in inverse ratio to the number of ministries dealing with national defence, might ultimately be overcome. Limitation. From this point of view, the Polish proposal formed a useful supplement to settle all the technical difficulties militating against the principle of separate limitation.

Mr. Lyon (United Kingdom) said that the speeches of the Finnish and Polish delegates had confirmed him in his intention of supporting M. Jacomet's proposal to refer the entire question to the Technical Committee. With regard to the difficulty of separating the expenditure on the three forces, he drew attention to the fact that the report of the Experts on Budgetary Questions was, on the whole, favourable to such separation. The authors of that report represented the most varied budgetary systems, such as those of Czechoslovakia, Japan, Turkey, Sweden, Finland, Yugoslavia and others. It would be wrong to endeavour to prejudice the decision of the Technical Committee, whose duty it was to ascertain whether it was possible, in practice, to separate the expenditure on the three forces from the point of view of publicity and limitation. He realised the difficulty of separating the expenditure in countries with only one Ministry of National Defence. The danger of global limitation was that it would enable countries to devote all their expenditure to one particular force. This was one of the causes for the decision arrived at by the Committee of Experts on Budgetary Questions.

Mr. Lyon was not in favour of giving directions to the Technical Committee such as those contained in the Finnish proposal. He therefore proposed that the Finnish and Polish proposals, together with Chapter 13 of the report of budgetary experts, should be referred to the Technical Committee, with instructions to discuss them from a purely technical point of view and to state whether the practical difficulties could be overcome.

M. Perne (Yugoslavia) said that the Yugoslav delegation, while maintaining the point of view expressed at the previous meeting, approved the French proposal to entrust the study of the question to the Technical Committee, it being understood that other organs would take the necessary action on the conclusions of the Technical Committee.

M. Lounatcharski (Union of Soviet Socialist Republics) pointed out that the Finnish proposal, and more particularly the Polish proposal, went beyond the technical sphere and had a definitely political character. The Polish proposal set on one side the question of disarmament for certain States and spoke of the normal and harmonious development of national defence. The Soviet delegation was of opinion that it would be inadvisable to express such principles on behalf of the Commission.
M. Lange (Norway) expressed the sympathy of the Norwegian delegation for a proposal emanating from a country to which Norway was bound by ties of age-long friendship. He would have been glad to be able to support this proposal, which was justified in theory. It was true that the principle of the limitation of expenditure was calculated in future to give greater elasticity to the systems of national defence than the principle of quantitative or even qualitative limitation. Unfortunately, this had not yet been reached. It was only when the disarmament question had been definitely settled and when the international community would be really governed by the conditions laid down in the Covenant that the principle expressed by the Finnish and Polish delegations could be applied.

Meanwhile, in view of the present level of armaments, the Norwegian delegation thought that separate limitation would have to be maintained for a long time to come. The Commission was aware that one of the claims on which the Norwegian delegation had set its heart was that of the separate limitation of expenditure on military aviation. The air force was the branch of military activity in which improvements were constantly being made and to which the military authorities gave careful attention. In order to prevent the development of this branch, all methods of limitation must be available. The Norwegian delegation regretted that it could not support the Finnish proposal. It proposed to refer the question without more ado to the Technical Committee for thorough consideration.

He would be glad to approve the Polish proposal if the preamble had not been such as to cause him some uneasiness. It spoke of the "possibility of developing or harmonising the various categories of national defence." It appeared to be forgotten that this was a Conference for the reduction of armaments and not for the development of national defence. The Norwegian delegation made the most explicit reservations in this respect and asked the Polish delegate not to insist on this preamble. It would be prepared to vote for the proposal provided the preamble and the last phrase in the second paragraph were omitted.

The President thought that the discussion had now reached a stage when the Technical Committee could draw from it the necessary information to enable it to study the technical difficulties involved. The Commission could not for the present take a decision of the question of separate limitation and the President would not therefore raise it.

M. Zeuceano (Roumania) thought the discussion on this question was premature. The French and British delegates and the President had explained why the Commission could not take a decision regarding it. It was a question of principle outside the competence of the Commission and could only be settled by the General Commission. Moreover, there were practical reasons in favour of referring the question to the Technical Committee. The documents of all the countries represented at the Conference had not yet been received. When these documents were available and had been examined, the Technical Committee would draw conclusions from which it could be seen whether exceptions should be made for certain countries after the General Commission had taken a decision as to whether limitation was possible for all countries. There was no doubt that the Finnish and Polish proposals contained elements of value. On the other hand, there were possibly other reasons in favour of these proposals. The question should therefore be referred to the Technical Committee in accordance with the proposal of the French delegate, supported by the United Kingdom delegate.

Colonel Karmann (Germany) drew attention to the numerous useful contributions made by the Finnish Government to the cause of disarmament. He was in entire agreement with the Finnish resolution, which touched upon one of the fundamental points of disarmament. He suggested that the Finnish proposal be referred, not to the Technical Committee, but to the General Commission. From the purely technical standpoint, he drew attention to the fact that the proposal raised the question of budgetary comparison. The strength of a given arm was not, however, always proportionate to the amount expended on that arm.

With regard to Chapter 13, he agreed with the French and British delegates that it should be referred to the Technical Committee, which should make a thorough study of the question of separation. One difficulty of separation was that the same arms might be used for all three forces. It was for this reason that the German delegate thought it would be difficult to separate expenditure. In his view, Chapter 13 was not on the same high standard as other parts of the report by the Committee of Experts on Budgetary Questions and should be entirely remodelled.

M. Liang (China) was in favour of the Finnish proposal. He did not quite agree with the Norwegian delegate as to the necessity of suppressing the reference to the development of the military organisation. Some countries had not fully developed their armaments and should not be prejudiced in this respect by attending the Disarmament Conference. This was, however, a political question. In general, he thought that direct disarmament was a more effective method than the limitation of expenditure. Direct limitation was feasible, but it was impossible to prevent countries from using their financial resources for some other purpose than that for which they were originally intended. He thought that separation of expenditure was impossible except for publicity purposes.
M. DE QUEVEDO (Portugal) thought the Polish proposal was worthy of consideration, as it mentioned special characteristics for determining those States for which separate limitation of national defence expenditure would offer difficulties. With the same reservations as those expressed by the Norwegian delegate in respect of the preamble, the Portuguese delegation supported the Polish proposal. It also supported the proposal made by the French and British delegates to refer the question to the Technical Committee.

Captain Moarefi (Persia), on behalf of the Persian delegation, supported the Finnish proposal. The separation of expenditure presented serious difficulties, even from the point of view of publicity alone. From the point of view of limitation, the question had a special aspect for a certain number of countries, including Persia. In drawing up her military budget, Persia was guided rather by her resources than by her actual needs. She would therefore be in favour of the Finnish and Polish proposals if the principle of budgetary limitation were accepted.

M. DE MODZELEWSKI (Poland) wished to reply to M. Lange in order to dispose of a misunderstanding. On carefully examining the text of the Polish proposal, it would be seen that the preamble referred to past events. It spoke of States which "have had neither the time nor the possibility of developing," etc. These were indisputable facts. In the first years of her new existence, Poland had been unable either to develop or organise any of the branches of her political, social or economic life. She had only been able to improvise. Even in the military sphere, she had had to be content with improvisations. While the history of recent years showed that at times these improvisations had been fortunate, the position could not be prolonged. It was only in the last few years that Poland had been able to devote her efforts to methodical organisation.

The Norwegian delegate would no doubt agree that, in the past, Poland had not had time to develop her national defence organisation. This must not be taken to mean that, in future, Poland intended to increase her expenditure on national defence. She had to fill up the gaps in the various departments of national defence. For that purpose, she proposed to concentrate her efforts at one time on one branch and at another time on another branch of national defence. If the expenditure relating to each of the three forces had to be limited separately, Poland would be obliged, in order to retain a certain freedom of action in this respect, to ask for higher limits, so that the total limit would necessarily be higher than if the limitation only referred to the total figure of expenditure. It was in order to avoid these excessive limits that the Polish delegation had submitted its proposal, and it was for the same reason that it considered this question should be discussed by the Technical Committee. It went without saying that the latter should only consider the question from the technical point of view, since the political aspects of the problem were solely within the competence of the General Commission.

As regards the conditions on which the Norwegian delegation was prepared to support the Polish proposal, M. de Modzelewski did not object to the omission of the last phrase in the second paragraph, but he could not agree to omit the preamble, which merely stated indisputable facts.

M. HIITONEN (Finland) thought a sufficiently clear distinction had not been made between publicity and limitation. The Finnish delegation's proposal referred solely to limitation. With regard to publicity it hoped that the technical difficulties might be overcome, especially if the Technical Committee were indulgent in respect of the derogations permitted for countries which had only one Ministry of National Defence. The problem was quite different when regarded from the point of view of limitation. For that reason it was not quite correct to say that it was essential to await the result of the examination of the documentation received from the various countries. The proposal was independent of that result, and would therefore be maintained by the Finnish delegation even if it were shown that it was possible to furnish the required information separately for each force.

He wished to allay M. Lange's apprehensions regarding the possibility of a too abrupt change in the military equilibrium if countries were entitled freely to distribute their national defence expenditure. This apprehension, which would be reasonable in the case of countries with large armies, could not be justified in the case of the countries referred to in the Finnish proposal.

He supported the Polish proposal, which gave a fresh argument in favour of the Finnish idea. He wished, however, to add that the preamble to the Finnish proposal was inherent in the military system of the countries concerned and did not depend on the level of their armaments.

M. RADULESCO (Roumania) Chairman of the Technical Committee, said the reference just made by the Finnish delegate to his own speech at the previous meeting compelled him to make clear his attitude. The Commission was dealing with a practical question. Chapter 13 of the report by the Experts on Budgetary Questions referred to the question of the separation of expenditure for each force. Was this separation possible? This was a question to which it would only be possible to reply when the documents deposited by the various countries had been examined. It could then be said that separation was possible for some countries, that for others it was possible provided some changes were made in the public accounting.
system and that, in other cases, it was impossible unless considerable changes were made in the national accountancy system. Only then would it be possible to examine the question whether the limitation of expenditure separately for each of the three forces was really possible.

At the previous meeting, he had quoted the questions which the Technical Committee had to solve. It was only after these questions had been settled that the Committee could draw its conclusions and the General Commission could reach a decision on the question of the principle of limitation. It was therefore incorrect to refer to the Technical Committee definite proposals prejudicing the conclusions which it might reach at the end of its work. It should be remembered that the Technical Committee was overburdened with work and could probably only submit its report at about the end of August.

At that time, and only after the General Commission had decided on the principle, would it be possible for the Expenditure Commission in turn to decide on the special aspect of the question dealt with in the Finnish and Polish proposals. Naturally, the Technical Committee would take into account the motives of the authors of those proposals, but merely in order to state whether separate limitation was possible and not to settle the questions of publicity or limitation. For these reasons, M. Radulesco supported the proposal to refer the entire question to the Technical Committee.

M. DE MODZELEWSKI (Poland) agreed with M. Radulesco. The question indeed had a technical aspect, which should be examined by the Technical Committee, and a political aspect on which the Expenditure Commission was not competent to decide.

Two solutions as regards the procedure appeared to be possible. Either the technical question should be referred to the Technical Committee and the two proposals should be sent direct to the General Commission, which should, in due course, examine the political problem which they involved, or the entire question should be referred to the Technical Committee which, after extracting the purely technical aspects, would refer the remainder to the Expenditure Commission for transmission to the General Commission. The Polish delegate, for his part, preferred to refer the matter to the Technical Committee and the General Commission at the same time.

The PRESIDENT noted that none of the speakers who had taken part in the debate had objected to the question being referred to the Technical Committee. It would therefore appear that this course might be regarded as decided, provided the part to be played by the Technical Committee were defined. Naturally, the Technical Committee would not discuss the question of principle, which had been described as political, but would merely examine the technical question whether it was possible to arrive at separate limitation for each force. At the same time, the Committee would see whether it was technicall possible to satisfy the requirements expressed in the two proposals.

The Polish delegation had proposed to refer the two proposals direct to the General Commission. The same suggestion had been made by the German delegate. The President did not think the moment had come to refer the question to the General Commission. The question of separate limitation had been referred to the Expenditure Commission, which could not, however, discuss it before the General Commission had reached a decision on the principle of limitation. The Commission could then discuss the question of principle, unless it subsequently decided otherwise.

The President's point of view was adopted.

30. DATE OF DESPATCH OF RETURNS. FINAL ACCOUNTS.

The PRESIDENT reminded the Commission that the Committee of Experts on Budgetary Questions, in Chapter 23 of its report, had reached the conclusion that, in present circumstances, it was not possible to propose a period of less than twenty-six months from the beginning of the budget year for the despatch of returns of expenditure effected, in view of the fact that some countries have additional periods extending sometimes to twelve months, during which charges might still be made on the accounts of the previous year. The Committee had pointed out that this period could be reduced if the Conference secured the consent of the countries specially concerned to shorten their additional periods or to draw up, for the purpose of the Convention, special accounts showing cash payments effected within the twelve months of the budgetary year.

During the previous discussion in the Commission, several delegates had urged that the information to be supplied in future by the Governments should be despatched and examined as rapidly as possible. The French delegation had made a detailed proposal on this subject (document Conf.D./C.D.17) which had been referred to the Technical Committee.

In this connection, the President wished to draw the attention of the Commission to the last paragraph in Chapter 23 of the Experts' report, which stated that "it will not be possible to bring about a limitation of armaments without considerable effort on the part of the contracting parties, and to some extent an effort must be made even in regard to systems of accounting".

1 See page 28.
Viscount Mushakoji (Japan) pointed out that in Japan the additional period was very short, amounting to only one month. She could not reduce it. The period of twenty-six months after the beginning of the budgetary year for the despatch of Model Statements appeared to him to be acceptable. Perhaps in some countries the additional period was too long. The Japanese delegation hoped that the Technical Committee would find a formula for overcoming the disadvantages which might result from this.

M. Jacomet (France) thought the President was very wise to draw the Commission's attention to the last paragraph of Chapter 23, which stated that the effort to be made by the contracting parties to arrive at a limitation of armaments should also extend to the system of accounting. France had always been in favour of a limitation of expenditure, and had made the greatest efforts to meet within the time-limits provided all obligations arising out of the possible conclusion of a limitation convention. The French Government was aware of the disadvantage of excessive delay in communicating expenditure figures and had examined the question whether a statement of cash payment during the twelve months of the budgetary year could not be furnished very soon after the end of the year. This investigation was not yet complete. As soon as it was completed, M. Jacomet would communicate the results of the Technical Committee.

Attention should also be drawn to delays due to special circumstances arising in some countries in the auditing of the final accounts. The French Government had taken special measures for the auditing of the final accounts in due time if a limitation convention were signed during the year. In any case, France would be in a position to produce duly audited final accounts within the time-limits fixed by the Convention. M. Jacomet wished to stress the effort made by France in this direction.

General Tanczos (Hungary), on behalf of the Hungarian delegation, shared the opinion of the Committee of Experts on Budgetary Questions regarding the necessity of publishing the closed accounts as promptly as possible, in the interest of the limitation of national defence expenditure. There was no doubt that publicity regarding the real use of funds allotted to national defence and limited by the Convention became ineffective and valueless if it were too long delayed. The Hungarian delegation therefore proposed to shorten considerably the time-limit of twenty-six months provided for the submission of Model Statements. If the States sincerely desired the limitation of armaments, they must, to some extent at any rate, subordinate their system of accounting to this end. In the budgetary sphere they must therefore reduce the time-limits within which the closed accounts had to be submitted to Parliament and published. If that were done, it would also be possible to shorten the period of twenty-six months.

He wished to point out that, if the Model Statements of various countries were not dispatched on the same date, that would affect the principle of simultaneity. He further pointed out that the suggestions contained in the fifth paragraph of Chapter 23 of the Experts' report were in contradiction with the principle of equality of treatment. That paragraph stated that, in countries where the auditing and approval of accounts had been considerably delayed in recent years, it might be necessary to draw up Model Statements on the basis of the final accounts before they had been audited. The Hungarian delegation thought that Model Statements the figures of which would be specially grouped and audited for the above-mentioned purpose could never take the place of documents drawn up on the basis of the closed accounts of all State departments, properly discussed in Parliament and published in good and due form. The Hungarian delegation, moreover, considered that it would be advisable always to fix the additional period after the end of each financial year on the basis of the principle of simultaneity. This period should also be reduced to a minimum. The Hungarian delegation therefore proposed to refer the question to the Technical Committee for examination and for the formulation of definite proposals.

M. Jacomet (France) was in entire agreement with the first part of the Hungarian delegation's proposal. There must be absolute reciprocity of obligations after the Convention had been signed, and all signatory States must present documents of equal value as evidence and within the same time-limits. Responsibility for delay must not, however, be thrown entirely on the exercise of the system of accountancy. There were countries with annual accounts (comptabilité de gestion) in which the delay in producing the closed accounts was equally long. It would be extremely difficult to demand that all countries should reduce their additional periods. M. Jacomet felt that the remedy would be found in the system which he had already had occasion to explain to the Technical Committee and to the Expenditure Commission. The period of twenty-six months was certainly much too long. The possibility had therefore been contemplated of giving some reassurance, until such time as the limitation of expenditure could be legally proved by the submission of the Model Statement extracted from the duly audited closed accounts. In the first place, there was the French proposal which had recently been submitted, and which provided for the despatch of the budget of each country and of all the laws authorising national defence expenditure to the organ entrusted with the execution of the Convention. In this way, it would be possible to ascertain to what extent the votes took into account the limits fixed by the Convention.
As a second means of giving reassurances, it was suggested that, immediately after the end of the calendar year, the States should supply a statement of cash disbursements on national defence during the year. In countries with a system of annual accounts, such a statement could be very easily and rapidly drawn up. In countries with the exercice system, the difficulties would be greater. Nevertheless, even in these countries it would be possible to supply a statement of annual disbursements fairly rapidly. As a rule, the paying departments kept annual accounts. It would be sufficient to ask that department to furnish a statement of disbursements on national defence during twelve months. There was no doubt that over a period of several years the amount of the annual disbursements would correspond almost exactly to the total exercice payments.

Naturally such statements of payments could not serve as legal proof of the limitation of expenditure. They could only give reassurances with regard to clauses of the Convention. On this point, M. Jacomet was in entire agreement with the opinion expressed by the Hungarian delegation. Conclusive proof of limitation could only be based on final accounts audited by independent and juridical authorities. The national guarantees instituted for the security of public credit and the proper administration of the public finances must be transposed to the international sphere. These guarantees existed in all countries because they were necessary. A convention for the limitation of expenditure would find its strength in the internal legislation of the contracting States. It was therefore evident that conclusive proof of the limitation of expenditure could only be based on closed accounts audited by the supervisory organs.

Colonel KARMANN (Germany) entirely supported the Hungarian proposal. There was no doubt that the additional periods were the cause of delay in preparing the Model Statements and, moreover, resulted in unclearness. He suggested that the Technical Committee should consider whether it would not be advantageous to accept the British system and to abolish the additional periods. He could not agree with the French proposal and insisted that returns should be based on closed accounts.

Mr. LYON (United Kingdom) said the statement in the report that the Model Statement should be prepared twenty-six months after the beginning of the financial year sounded less advantageous than it was in fact. It really amounted to only fourteen months after the end of the financial year. In view of the distance of parts of the British Empire and the necessity of auditing the accounts, he was not sure that this period could be reduced.

He thought the auditing of the accounts was a fundamental requirement. The auditing should be done by an authority independent of the ministry concerned. Any departure from this system weakened the value of the figures.

The fundamental points were to what extent the audit could be dispensed with and whether the period allowed for supplying the figures could be shortened. These were purely technical matters which he suggested should be referred to the Technical Committee.

M. DE MODZELEWSKI (Poland) approved the Hungarian proposal in principle and agreed that it was desirable to shorten, as far as possible, the time-limits fixed for submitting the Model Statement. This was true in theory. It was, however, necessary to face the actual facts. The Hungarian proposal implied changes in administrative practice which would necessitate a long delay. It was indisputable that efforts should be made to adopt uniform methods of accountancy, but it was difficult in the first period of application of the Convention to require changes to be made in age-long administrative habits.

It was evident that the budget could not serve as conclusive proof of limitation, but it nevertheless supplied valuable information. The period of twenty-six months, which was really only fourteen months, was evidently too long, especially in view of the rapidity with which events occurred. Figures supplied with such a delay would obviously lose a great part of their value. M. Jacomet had found a happy solution. It was true that the budgets and the accounts of cash disbursements together gave an almost exact picture of the closed accounts. Such returns would make it possible to estimate whether the countries were keeping within the limits fixed by the Convention before complete security was acquired by means of the Model Statement drawn up on the basis of the final accounts. M. de Modzelewski thought that M. Jacomet’s suggestions should be put in the form of a written proposal.

In accordance with the Hungarian delegation’s proposal, it was decided to refer the question to the Technical Committee, which was requested to take into consideration the remarks made by the various speakers and M. Jacomet’s proposal.
THIRTEENTH MEETING

Held on Thursday, May 26th, 1932, at 3.30 p.m.

President: M. DE VASCONCELLOS.

31. DEPOSIT OF THE DOCUMENTATION SUPPLIED BY BELGIUM.

M. PRENEN (Belgium) said the Belgian delegation has just deposited complete documentation regarding the military expenditure of his country for the year 1930. Belgium waived the application of the principle of simultaneity in respect of the examination of this documentation.

32. ARTICLE 33 OF THE DRAFT CONVENTION.

The President recalled that the Preparatory Commission had added the following note to Article 33 of the draft Convention:

"In giving an opinion on this article, the Governments will take into account the report requested from the Committee of Budgetary Experts regarding the number and nature of the categories to be laid down and the methods of publicity thus adopted in connection with the provisions of the annex regarding limitation referred to in Article 10 of the present Convention."

The President asked the Commission to decide whether it accepted this conclusion or not.

Viscount MUSHAKOJI (Japan) said the Japanese delegation was prepared to accept Article 33, provided the term "categories of material" was understood to mean categories fixed by the Committee of Experts and reproduced in the Model Statement under subheads L, M, M(a), and N.

He proposed the following text:

"The National Defence Expenditure Commission understands by the term 'by categories of material' in Article 33 of the draft Convention the categories formulated by the Committee of Experts and reproduced in the Model Statements under the subheads L, M, M(a) and N."

M. LOUNATCHARSKI (Union of Soviet Socialist Republics) pointed out that, for the reasons which he had already given in his speech on May 11th¹, the Soviet delegation thought it necessary that the information communicated to the international control organ should also include returns regarding armaments and war material manufactured in the territory of a given State, either by private industry or by State industry, and that these returns should include armaments and material manufactured under orders from foreign countries or merely for export. These considerations were naturally related to the Soviet proposal regarding private capital invested in war industry; but it was necessary to emphasise the consequences arising from that proposal as applied to Chapter 19 of the report by the Experts on Budgetary Questions.

The Soviet delegation, moreover, thought it necessary to extend Article 33 of the draft Convention to aircraft, engines and other devices and material of military aviation. It also agreed with the proposal submitted by the German delegate to the Preparatory Commission (Report by the Commission, Section 201, document C.690.M.280.1930.IX), that the information submitted should express, not only the cost of production, but also the quantity of material manufactured. For that purpose, the information submitted should be accompanied by a specification of the war material to which it referred.

M. Lounatcharski therefore proposed the following amendments to Article 33:

1. Add in the first paragraph of the Article the words: ' . . . and air' after the word 'sea'.

2. Add a further paragraph worded as follows to the end of the article:

"Publicity must include not only the cost of production of manufactured material but also the quantity expressed in numbers and categories."

¹See Minutes of the ninth meeting.
General TANČZOS (Hungary) recalled the Hungarian delegation's statements at the meeting of May Ixth. For reasons explained at the time, the Hungarian delegation was not in a position to define its attitude towards the questions raised in Article 33 until the competent Commissions had taken a decision of principle on the question of the combined application of direct and indirect limitation and on the problem of publicity. For these reasons, and in the general interest, the Hungarian delegation proposed not to continue the discussion on Article 33 of the draft Convention until a definite solution had been found by the General Commission and the Land Commission.

M. JACOMET (France) recalled that, after an extremely detailed study of the question, the Committee of Experts had reached the conclusion that it was impossible for all States to furnish an annual account of the expenditure devoted to various categories of material. He thought it advisable to remind the Commission briefly, without entering into a technical discussion of an extremely difficult question, of the reasons for which the Committee had reached a negative conclusion. It had found that the States which purchased their war material either from private industry or from foreign Governments had facilities for giving annual figures of expenditure for a fairly large number of categories of material. It was obviously much more difficult for States manufacturing the material themselves, either in autonomous or non-autonomous establishments, to discriminate between the manufacturing expenses of various categories of material, since there was no correlation between budgetary credits and manufacturing expenses. This was due to the fact that the manufacture of almost all materials required much more time than that in which the credits voted could be used. These difficulties could only be overcome by States possessing an extremely detailed system of budgetary accountancy and having manufacturing accounts at their disposal.

The Committee of Experts had, however, found that these conditions were fulfilled in very few States, and that, consequently, the publicity of expenditure by categories of material was not possible in a convention of a universal character.

This very concise statement of the facts showed that what was impossible for some States might be possible for others. This raised the question whether it was not possible to contemplate alternative solutions of this problem. An investigation by the Technical Committee, which would have the advantage of having examined the budgetary documentation of all the States and of knowing their administrative regulations, was the only way to ascertain whether alternative solutions could be considered, in reply to the question raised in Article 33 of the draft Convention.

Consequently, the French delegation proposed to refer Article 33 to the Technical Committee for examination from the standpoint of the remarks which M. Jacomet had just made.

General TANČZOS (Hungary) accepted the French proposal to refer the question to the Technical Committee. He felt quite confident in leaving it to the latter to decide whether it should discuss the problem before or after the question of principle had been settled by the competent Commissions.

In reply to a question by the President, General TANČZOS stated that by this acceptance he waived his proposal to adjourn the discussion.

Colonel KARMANN (Germany) was glad to note that the Soviet delegate agreed as to the necessity of including in the published figures both the cost of production and the quantities manufactured. He approved the observations of the Hungarian delegate.

M. RADULESCO (Roumania), Chairman of the Technical Committee, noted that General TANČZOS agreed with the French proposal, and that, consequently, there was no objection to the question being referred to the Technical Committee. It should, however, be pointed out that the Technical Committee would be engaged for some time in examining the documents submitted to it and could only take up this question at a later date and probably only after the other Commissions had reached a decision on the subject. Even if the Commissions did not take any decision, the Committee might consider a solution in the purely technical sphere.

Mr. CARR (United Kingdom) supported the conclusions arrived at in Chapter 19 of the report by the Committee of Experts on Budgetary Questions. In his view, those conclusions probably represented the maximum that could be attained. He did not wish, however, to oppose the Hungarian and French delegates' proposal to refer the subject to the Technical Committee.

The Commission decided to refer this matter to the Technical Committee, together with the proposals made by the Japanese and Soviet delegations.

33. COMMUNICATION OF CERTAIN LAWS AND REGULATIONS THAT MAY BEAR ON NATIONAL DEFENCE.

The President pointed out that, in Chapter 21 of its report, the Committee of Experts on Budgetary Questions had examined the advisability of providing for the communication to the competent organs of the laws and regulations of the various countries bearing on the question of any special facilities given to armament concerns in the matter of Customs tariffs,

1 See Minutes of the ninth meeting.
fiscal, labour or commercial legislation, concessions, or on the question of unpaid services rendered to the State by individuals or institutions for defence purposes. This matter, however, did not properly form part of the question of the limitation of defence expenditure, and the Committee had been reluctant to make any suggestion which might overburden the competent organs by obliging them to study legislation, etc., which was in most cases unrelated to the work of such organs. The Committee therefore left it to the Conference to consider (after consulting, if it so desired, any other bodies which were competent to advise) whether special measures were necessary in this matter.

The President requested the Commission to decide whether the question should be discussed immediately or referred to the Technical Committee.

M. Jacomet (France) noted that, from the point of view of the conclusion of a Disarmament Convention, Chapter 21 was not of absolute juridical importance. It would nevertheless be interesting, from the point of view of the subsequent conclusion of a Limitation Convention, to examine the problem of facilities granted to armament concerns in the form either of exemption from taxation, of labour or commercial legislation, since such facilities were means of increasing the production of war material. In Chapter 21 of its report, the Committee of Experts had merely made a suggestion. It might be advisable to refer the question to the Technical Committee and to request it to make a definite proposal from which final conclusions could be drawn.

M. De Modzelewski (Poland) appreciated the importance of the question of facilities granted by the financial system of various States, in respect of the transport and manufacture of war material. He was of opinion that services furnished by the population to Governments for defence purposes, frequently without payment, should not be forgotten. These services enabled States to make a considerable reduction in expenditure on the production of war material without the quantity being affected. The Polish delegate supported M. Jacomet's proposal that the Technical Committee should be instructed to make a much more detailed study of the question.

Colonel Karmann (Germany) thought it was unnecessary to study the legislation of all the States represented at the Conference. The Technical Committee should, however, enquire whether such legislation was able to influence the price of material by means of Customs tariffs, labour facilities, etc.

M. Radulesco (Roumania), Chairman of the Technical Committee, said that if this question were referred to the Technical Committee, the latter would be obliged to obtain information from various organs of the League of Nations on questions relating to Customs tariffs and labour legislation.

The Commission decided to refer the question to the Technical Committee.

34. "Virement" Between the Limits of the Three Forces.

The President was of opinion that this question was closely bound up with that of the separate limitation of each force and proposed that it should be referred to the Technical Committee.

The President's proposal was adopted.

35. Fixing of Limits so as to Allow for Variations in Expenditure from One Year to Another.

Colonel Karmann (Germany) wished to repeat the declaration of the German delegation in document Conf. D.79 before the Commission entered into a discussion of questions relating to budgetary limitation. This declaration was worded as follows:

"The German delegation are of opinion that the numerous deviations from the solid basis of the gold standard which have recently occurred are going to bring about such a decisive and unforeseen change in purchasing power that, for the time being, the method of financial limitation cannot be used as an effective measure of disarmament. Under the present economic and monetary circumstances, the application of this method would give rise to continual derogations which would seriously interfere with the steady advance of the process of contractual disarmament. Moreover, the establishment of a common plan for the financial limitation would be connected with extraordinary difficulties owing to the great differences which are at present existing in the various countries as to the stocks of material in hand. On the other hand, regard must be had to the fact that any really effective direct disarmament would be automatically accompanied by the indispensable decrease of the heavy financial burdens under which the nations are suffering owing to the exaggerated level of armaments."
Subject to this declaration, the German delegate would be glad to take part in the discussion on Article 29 regarding total limitation, provided the special limitation laid down in Articles 10 and 24 were not discussed either from the technical or political point of view.

General TANCZOS (Hungary) associated himself with the declaration just made by the German delegate. He did so all the more readily as it was in agreement with the statement made by the Hungarian delegation at the meeting of May 11th.

The President pointed out that the Committee of Experts on Budgetary Questions had recognised the necessity of providing for various legitimate causes of fluctuations by allowing a certain elasticity when fixing the limits of expenditure of the contracting parties. It was for the Commission to decide whether it shared this view. If so, the Commission might examine the following draft texts submitted by the Committee:

"Each of the High Contracting Parties undertakes:

(a) To maintain during each consecutive period of four years the average level of its annual expenditure within the limits laid down in Articles 10, 24 and 29 of the draft Convention of the Preparatory Commission for the Disarmament Conference;

(b) Not to exceed during any given year this average limit by more than a percentage fixed for the High Contracting Party in Table . . . ""

The Committee of Experts on Budgetary Questions had pointed out that the necessity of exceeding the average limit in a given year would be felt more strongly in certain countries, for example:

(a) Countries which have comparatively small national defence budgets, and
(b) Countries which purchase abroad a considerable part of their war material—i.e., non-industrial countries—or the raw materials required for the production of this war material.

On the other hand, the Committee had pointed out that the percentage of elasticity should be fixed within the narrowest limits possible, in order to prevent reserves from being "accumulated" for expenditure in a given year. The Committee had also expressed the idea that the Conference might consider the advisability of stipulating that, during the first year or the first two years of the Convention, the average should not be exceeded, at all events as regards expenditure on war material.

As regards expenditure on personnel, which represented a considerable portion of the total expenditure, the Committee pointed out that the reduction might only be possible by degrees and that, for that reason, it might perhaps be difficult to apply the above-mentioned rule to total expenditure.

Lastly, the Committee had stated that exceptional situations might arise as a result of which States would have a special motive for increasing rapidly their annual expenditure and raising it appreciably above the average. As an example, the Committee mentioned the possibility of a considerable increase of armaments expenditure in case of a national catastrophe or the accidental loss of a warship, which the country concerned would be entitled to replace. Should the Conference consider it necessary to take such cases specially into account, the Committee proposed to provide for a temporary increase in the percentage mentioned in paragraph (b), the maximum of the average expenditure as laid down in paragraph (a), however, always being observed.

The President concluded his statement by reminding the Commission that the Greek delegate had alluded to this question at a previous meeting.

Viscount MUSHAKOJI (Japan) drew the Commission's attention to the fact that there were exceptional situations requiring considerable expenditure which could not be met by the method of a temporary increase recommended by the Committee of Experts. As a result of the great earthquake in 1923, Japan was obliged to repair the damage caused by this catastrophe in the sphere of national defence. It had been obliged to assign for this purpose more than 200 million yen or about 20 million pounds sterling. The Japanese delegation was of opinion that such quite exceptional expenditure did not, properly speaking, constitute national defence expenditure. It did not object to the inclusion of these credits in national defence expenditure as regards publicity. But from the point of view of the limitation of expenditure, the Japanese delegation thought that the credits in question should not be included in national defence expenditure. The Naval Agreements of Washington and London had, moreover, been drawn up in the same spirit as regards the replacing of vessels lost by accident. Under these circumstances, the Japanese delegation thought it would be advisable to instruct the Technical Committee to examine this question with a view to finding a solution suited to actual requirements.

The Commission decided to refer the question to the Technical Committee.

1 See Minutes of the tenth meeting.

The President pointed out that in Chapter 18 of its report the Committee of Experts on Budgetary Questions recommended that the limitation of expenditure in each country—whether on the gold standard or not—should be expressed in the currency of the country. The Committee had pointed out that among the countries invited to take part in the Disarmament Conference there were three which were on the silver standard and five in which the gold standard could not be said to be fully established. It went without saying that the de facto situation had considerably changed since the report was drawn up in February 1931.

The Committee of Experts considered that in gold-standard countries variations in the cost of national defence services would, as a rule, be kept within fairly narrow limits; it had not, however, disregarded the possibilities of more important changes in the future, and had therefore tried to formulate certain principles which, if such changes should occur, might be applied.

The Committee had reached the conclusion that the wholesale and retail price indices and the various cost of living indices, together with the wage indices, compiled in many countries, could not form a basis for any readjustments which might have to be made in the limits fixed in the Convention.

The Committee was therefore of opinion that no existing index or combination of indices could form a suitable base for an automatic adjustment. Moreover, the Committee had found it impossible to compile a special index satisfactory enough to be applied automatically.

The Committee had concluded that it was necessary to consider each case separately, and to take into account factors which could not be easily given due weight in the compilation of an index. This consideration had led the Committee to propose that an active organ be given the task of judging the merits of each case referred to it at the demand of a Government.

Moreover, during the general discussion which took place at the beginning of the Conference, several delegates had emphasised the importance of the question of fluctuations in the purchasing power of the various currencies from the point of view of the proper working of a system of limitation. He had in view, in particular, the proposal of the Swedish delegation contained on page 48 of document Conf.D.99, together with the remarks of the German delegation on page 32 of the same document. At the second meeting of the Commission, a number of delegations had urged the importance of this question. The United Kingdom delegation had proposed, in particular, that a special committee should be instructed to study the problem. The Commission would have to decide whether a special committee should be appointed, or whether the question should be referred to the Technical Committee. He recalled that the Secretariat had drawn up a table of the present position of various currencies. This table was at the disposal of the Commission or of the special committee which might be appointed.

M. Sandler (Sweden) made the following statement:

In its memorandum (document Conf.D.110), the Swedish delegation notes with satisfaction that the National Defence Expenditure Commission has placed on its agenda the study of the budgetary method with a view to its application in case of fluctuations in the purchasing power of currencies. It trusts that this study will be continued until definite results have been secured.

The question raised by the Swedish delegation may be summarised as follows: Does the fact that certain countries have abandoned the gold standard make it desirable to consider some other method of budgetary limitation than that contained in the draft by the Committee of Experts on Budgetary Questions?

The experts have dealt with this problem, but without attaching to it all the importance which it possesses at the present time. If monetary instability actually exceeded a certain limit, that fact might undermine the entire system of budgetary limitation. In view of the present situation, the Swedish delegation, nevertheless, maintains the conviction that the system is feasible.

The present situation has, however, increased the importance of a question already discussed by the experts, namely, whether budgetary limits should be fixed in the currency of each country or expressed in some other manner.

The search for a universal system for drawing up an index by means of which a comparison can be made of the internal purchasing power of different currencies would no doubt meet with so many difficulties that it would appear quite inadvisable to adopt this course.

There is, therefore, a choice between two methods. Either the figures can be expressed in the currency of the country, or their gold value can be calculated at the current rate of exchange. If the former method were adopted, it would imply the possibility of automatic disarmament in case of inflation. I think, however, that in spite of the changes which have taken place in the monetary situation, the most practical course is to accept the method of the experts and to calculate in all cases in national currencies.

It seems doubtful whether a better method of overcoming the difficulties of the new situation can be suggested than that already recommended in the draft of the budgetary experts. This draft suggests a special procedure for readjusting the limits to be fixed in the Convention. A country suffering from inflation may ask for a readjustment of its fixed limits on account of the decrease in the internal purchasing power. Each country may also ask for the readjustment of the figures of another country on account of an increase in the purchasing power.
The purchasing power of its currency. All decisions on requests for readjustment must be taken by a conference of the States after they have been first submitted to the Financial Committee of the League of Nations for examination.

This mechanism, which implies a readjustment in each individual case after investigation of the special circumstances, for which purpose the State making the application must in the first place submit the necessary documentary evidence, would appear to be decidedly preferable to any attempt to insert in the Convention an automatic rule involving the use of an index.

It should be noted that the danger of fluctuations in the purchasing power may already be taken into consideration when the budgetary limits are first fixed. According to the experts' draft, the limited figures must refer to an average level for a consecutive period of four years, the contracting parties undertaking not to exceed this average limit in a given year by more than a percentage to be fixed. Should a country be obliged to guard provisionally against the danger of any fluctuation in the purchasing power, the above-mentioned percentage figure could be used for this purpose.

The system of readjustment drawn up by the experts provides for a fresh conference of the Governments in order to reach a final decision. In case of a long period of wide fluctuations in the purchasing power, this mechanism would no doubt prove to be very complicated. It must therefore be considered whether a more simple procedure could not be drawn up than that of Government conferences, in order to bring about any readjustments which may be necessary. The functions of the Permanent Disarmament Commission—to be constituted for supervising the application of the Convention—have up to the present been only vaguely fixed. These functions should include the supervision of budgetary limits. A prima facie solution of the above question is to entrust the Permanent Commission with the task of taking decisions on the subject of the readjustment of budgetary limits on the basis of the preliminary investigation provided for by the experts. The Swedish delegation thinks it would be useful to consider the method thus suggested.

As regards the procedure for examining the entire question of purchasing power, I will merely state, for the moment, that the Swedish delegation agrees that it should be referred to the Technical Committee, which should be merely instructed to continue the study already made by the experts on budgetary questions. If it is necessary to consult experts in this subject, the Technical Committee is authorised by its terms of reference to co-opt other experts with the consent of the Bureau of the Commission.

Mr. Carr (United Kingdom) pointed out that the United Kingdom proposal to appoint a special committee to study this subject had been made at one of the first meetings of the Commission before the Technical Committee was constituted. In view of the Swedish delegate's proposal, the United Kingdom delegation saw no reason to press its own, but agreed that the matter should be referred to the Technical Committee, which would naturally be entitled to call in other experts. If the Swedish proposal were accepted, the United Kingdom delegation would therefore withdraw its proposal.

M. Jacomet (France) made the following observations:

In February 1931, when the report by the Committee of Experts on Budgetary Questions was drawn up, three countries were on the silver standard while five other countries possessed a currency which was not freely convertible into gold. All the other countries had currency convertible into gold. The Committee of Experts on Budgetary Questions had based its report on this position.

Since that date, however, a considerable number of countries which were on the gold standard in some form or another have broken the bonds which linked their money with gold. It goes without saying that the terms of the report by the experts on the question of fluctuations in the purchasing power of the currencies must be revised. The French delegation is, however, of opinion that, while the terms of the experts' report must be changed, the conclusions of the Committee remain valid.

It must be pointed out that, both for countries which were on the gold standard when the report was drawn up and for countries whose currency was unconnected with gold, the Committee of Experts concluded that an automatic means could not be found for measuring variations in the cost of armaments and for readjusting in respect of these variations the contractual limits of expenditure. Whether the countries were on the gold standard or not, the Committee concluded that only an active organ should be given the task of deciding, on the basis of proof submitted by the Governments, whether circumstances justified any change in their contractual limits of expenditure. The French delegation remains faithful to this idea.

In addition, it considers, as I have already stated, that there can be no question of comparing the expenditure of various countries in order to fix limits of expenditure. In other words, it considers that the limits of expenditure cannot be fixed by means of coefficients or sliding scales. A common measure should therefore not be sought in order to fix the limits. As the experts' report shows, the limits must be fixed in the domestic currency of the country, but, if a Convention for the Limitation of Expenditure is to be concluded and put into execution, the changes in the purchasing power of currency must not be so radical or so frequent as to necessitate a constant readjustment in the limits of expenditure.
It is therefore indispensable to make a special study, in countries which have abandoned
the gold standard, as to the extent of fluctuations in internal prices as shown by price indices.
This is a purely objective study.

On the other hand, the French delegation is of opinion that the question of variations
in the cost of armaments has also a definitely administrative aspect, since the pay of the
personnel and the cost price do not always vary as rapidly as internal prices. For instance,
it may be noted that wages and salaries for a long time remain on the same level while the
index figures and the cost of living are undergoing considerable fluctuations. From the
administrative point of view there are, in consequence, elements of stability in the cost of
armaments which must be taken into account.

The French delegation is therefore of opinion that the question must be examined both
from the economic and the administrative aspects.

Does the examination of price indices in the principal countries which have aban-
doned the gold standard show that comparative stability exists in spite of the drop in the
rate of exchange ?

Is it to be feared that the difference between the external and internal purchasing power
of the currency of these countries will result in an appreciable increase in prices ?

Is it likely that the almost simultaneous abandonment of the gold standard by a group
of countries bound together by a series of economic and financial interests will lessen the
influence exercised on internal prices by the rise in external prices ?

Does not the necessity for budgetary equilibrium involve a fall in the standard of living,
and is it not in consequence an element in the fall in prices ?

In making a forecast of events, should any account be taken of the precedents to be
found in countries which have experienced very serious monetary crises ?

Is not the devaluation of currency which has recently taken place in those countries
mainly due to a phenomenon of inflation resulting from the budgetary deficit ?

May not inflation itself be a more serious cause of price fluctuations than the abandonment
of the gold standard ?

On the contrary, do not the States which have abandoned the gold standard endeavour,
in their fear of inflation, to balance their budgets by cutting down expenditure ?

These are questions which must be examined, because they have an undoubted reaction
on the question of fluctuations in purchasing power. The French delegation thinks that no
doubt should subsist on this problem and that a careful enquiry should be made both from
the economic and the administrative point of view.

The French delegation supported the Swedish proposal to refer the question to the
Technical Committee, it being understood that the latter could co-opt persons specially
competent to deal with this subject.

M. Hittonen (Finland), on behalf of the Finnish delegation, supported the Swedish
proposal. He thought the procedure suggested by the Committee of Experts on Budgetary
Questions was rather unwieldy and would take up considerable time. Fluctuations in the
purchasing power of a currency might be very rapid and extensive. For instance, in Finland,
the price index rose during the year 1920 from 819 to 1103. There had been even more striking
examples in Germany.

While approving the proposal to refer the question to the Technical Committee without
giving the latter any special instructions, the Finnish delegation expressed the hope that the
Technical Committee would not lose sight of the practical and political consequences its
conclusions might involve. If the supervisory organ were given more extensive powers, it
would be more difficult to restrict the number of its members, and thus to omit certain States,
as provided in Article 40 of the draft Convention.

Colonel Karmann (Germany) suggested that the Swedish and French statements, in
view of their far-reaching importance, should be printed and distributed. He thought the
Swedish proposal offered the best solution and would bring about a saving of time and money.
He hoped that the Technical Committee, especially if assisted by experts on this subject,
would overcome the difficulties connected with currency fluctuations.

The President replied that the German delegate's wish would be complied with and the
statements made by MM. Sandler and Jacomet would be inserted in extenso in the Minutes.

M. Radulesco (Roumania), Chairman of the Technical Committee, noted that this was
the twenty-fourth question which it was proposed to refer to the Technical Committee. The
latter was extremely grateful for this sign of confidence and esteem.

It would do its best to study the question of fluctuations in the purchasing power of
money, a question which was so much debated and so debatable in theory, but which in
practice might form the subject of concrete conclusions. Two methods had been proposed
for this study: the constitution of a special committee or reference to the Technical Committee.
M. Radulesco was in favour of the second solution and was glad that the United Kingdom delegate had withdrawn his proposal to constitute a special committee. The Technical Committee would naturally take advantage of its right to call in competent persons for the examination of the theoretical aspects of the problem. The Committee's task would be to examine the question of the purchasing power of money from the point of view of the main object of the Disarmament Conference—namely, the conclusion of a definite contract between sixty Powers. It would do everything in its power to submit a clear, technical and accurate report. He wished, however, to point out that the report could only be submitted to the Commission at a somewhat late date.

The Commission decided to refer the question to the Technical Committee.

37. DOCUMENTATION RELATING TO NATIONAL DEFENCE EXPENDITURE SUPPLIED BY GOVERNMENTS: STATEMENT BY THE CHAIRMAN OF THE TECHNICAL COMMITTEE.

M. RADULESCO (Roumania), Chairman of the Technical Committee, made a statement on the position of the documents furnished by the Governments regarding their national defence expenditure. It appeared that nine countries had deposited a complete set of documents which had been submitted for the examination of the delegations. These countries were Germany, United Kingdom, Denmark, France, India, Poland, Sweden, Switzerland and Czechoslovakia. One country, Japan, had deposited documents which were complete and would be submitted shortly for the examination of the delegations.

Thirty-one countries had furnished a part of the documents required—namely, South Africa, Albania, Australia, Austria, Belgium, Bulgaria, Canada, China, Cuba, Estonia, United States of America, Finland, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Mexico, Norway, New Zealand, Netherlands, Persia, Portugal, Roumania, Siam, Spain, Turkey, Union of Soviet Socialist Republics, Venezuela and Yugoslav.

Lastly, nineteen countries had furnished no documents: Abyssinia, Afghanistan, Argentine, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Egypt, Guatemala, Haiti, Hejaz and Nejd, Honduras, Liberia, Luxemburg, Panama, Peru and Uruguay.

He stated that the Technical Committee, which had been instructed to examine the documents relating to the national defence expenditure of the various countries, would do its best to cope with this task. The countries represented at the Conference should, however, also make an effort to help the Committee by submitting the necessary documents at the earliest possible moment. On behalf of the Bureau and of the Technical Committee, M. Radulesco again addressed an urgent appeal to the delegations represented at the Disarmament Conference to submit the documents in question in time to enable the Technical Committee to make its report about the end of August or the beginning of September.

FOURTEENTH MEETING

Held on Monday, May 22nd, 1933, at 11 a.m.

President : M. DE VASCONCELLOS.

38. STATEMENTS BY THE VICE-CHAIRMAN AND GENERAL RAPPORTEUR OF THE TECHNICAL COMMITTEE ON THE WORK AND THE REPORT 1 OF THAT COMMITTEE.

Mr. Lyon, Acting Chairman of the Technical Committee, and M. Jacomet, General Rapporteur, took their seats at the table of the Commission.

The President recalled the instructions given on March 8th, 1932, by the General Commission of the Conference to the National Defence Expenditure Commission. 2 He enumerated the questions which formed part of the Commission’s terms of reference, and briefly summarised the Expenditure Commission’s discussions resulting in the formation of a Technical Committee to which all these questions were referred. The President took the opportunity of paying a tribute to the Technical Committee, whose report would certainly be one of the masterpieces of the Disarmament Conference.

Mr. Lyon (United Kingdom), Vice-Chairman of the Technical Committee, in the absence of the Chairman, M. Radulesco (Roumania), who was unable to be present, submitted the Committee’s report.

He described the task entrusted to the Committee, a task so vast that there was no need for him to explain why the preparation of the report had taken so long. The Committee had first had to examine certain financial documents regarding the national defence expenditure of all the Powers represented at the Conference; it had then to study a large number of technical questions which actually covered the whole field of investigation comprised in the report drawn up by the 1931 Budgetary Experts.

Mr. Lyon regretted that the Committee had only been able to make a complete examination of the returns of nineteen countries and a partial examination so far of those of ten others. He pointed out, however, that the national defence expenditure of these twenty-nine countries represented 90 per cent of the national defence expenditure of the whole world, amounting in 1930 to more than four milliard dollars, or about twenty-two milliard Swiss francs; that gave them an idea of the magnitude and urgency of the Committee’s task.

Mr. Lyon did not propose to enumerate the other questions which had been referred to the Technical Committee. He would merely stress their importance by pointing out that they included, in addition to a study of the actual expenditure of States, technical accountancy questions, such as the problem of gross and net expenditure; the study of constitutional questions, such as the nature of budgetary systems; and, lastly, an examination of such economic problems as the effects of price fluctuations on the limitation of national defence expenditure. The Committee, however, did not claim to have made a thorough, scientific study of national financial systems. It had merely endeavoured to elucidate the questions of principle bearing on budgetary limitation, despite the difficulties it had encountered in regard to information. He trusted that the review of budgetary systems contained in Chapters V, VI and VII of the report would supply practical data enabling the Commission to adopt sound decisions.

Mr. Lyon then gave explanations of the actual report of the Technical Committee. Volume II of this report contained a summary of the data on the basis of which the report properly so called, contained in Volume I, had been drawn up. The summaries of the data compiled as a result of a study of the returns of the various countries had, to ensure their correctness, been submitted to the delegations concerned, but they were published under the responsibility of the Technical Committee. The summary for the Union of Soviet Socialist Republics appeared as an addendum to Volume II.

The report itself was not submitted in the form of direct replies to the questionnaire referred to the Committee, as these replies were, in fact, only special aspects of the general technical problem of budgetary limitation. The Committee’s conclusions were summarised in the 166 points set out in Chapter XXII of the report. He would give a few general explanations on the view which the Committee had taken of its task.

In the sphere of purely technical questions, the Committee’s first task had been to define national defence expenditure. It had then decided that expenditure should be taken to mean the amounts shown in the accounts and not those which appeared in the budgets. It was thus brought to examine the figures submitted by the various countries, to verify their correctness both as regards both national defence expenditure and the separate expenditure on land, naval and air forces and on the war material of each of these forces. It had then studied the problems *inter alia* of the purchase by Governments of war material, payment for which was not made within the normal time-limit, services for which no payment was made, the significance of loans granted to private armaments enterprises, etc.

As regards questions relating to the practical operation of a limitation system, the Committee had had to study *inter alia* the problem raised by certain exceptional and unforeseeable expenditure incurred as the result of a rebellion, for the protection of nationals or in the case of natural disasters. The Committee had also given consideration to the necessity of keeping the value of limits constant. For this purpose it had suggested a system by which allowance could be made for fluctuations in the purchasing power of currency. Finally, the Committee had considered what would happen if the actual expenditure of a country was much lower than the limit allotted to it.

Mr. Lyon drew the Commission’s attention to the question of supervision. The Technical Committee admitted that that question had not been directly referred to it and that, in that respect, it had perhaps somewhat exceeded its terms of reference. As constant reference, however, was made in its suggestions to the Permanent Supervisory Commission, the Committee felt it should explain what in its opinion was technically necessary for the supervision of budgetary limitation. Moreover, the Committee felt itself encouraged to do so by the actual wording of the Bourquin Report, which stated that special committees might study the technical aspect of supervision in connection with the special subjects referred to them for consideration. Mr. Lyon, however, agreed that this problem of supervision raised political questions which were not the Technical Committee’s concern. The Committee had confined itself to elucidating, as far as possible, the technical requirements of international supervision of national defence expenditure.

Speaking as Acting Chairman of the Technical Committee, Mr. Lyon drew the Commission’s attention to the fact that the replies given in the report to the various questions were not always unanimous, and that reservations had been made by certain members in different parts of the report. He thought, however, that he was faithfully expressing the Committee’s
sentiments when he said that the proposals for detailed publicity on the basis of Article 8 of the Covenant were a unanimous recommendation. On the question, however, of limitation of expenditure, divergent views had been expressed, not so much on the essential conditions of limitation as on the extent to which those conditions were or could be fulfilled. He felt he could say that the members of the Committee were more or less in agreement as to the technical conditions governing limitation. Some members, however, had pointed out that, at the present moment, some of those conditions were not fulfilled, and it would be wiser to wait a few years before taking a decision on the subject.

Lastly, Mr. Lyon pointed out that, in the final point of its conclusions, the Committee expressed the opinion that its report embodied reasoned replies to all the questions referred to it, and that those replies would enable the Expenditure Commission to come to the necessary decisions on the subject of limitation and publicity of expenditure. He would leave it to M. Jacomet, the General Rapporteur, to explain in greater detail the contents of the report, the logical development of its chapters, and the data which would provide the National Defence Expenditure Commission with a basis for the adoption of solutions which might prove of decisive importance in the history of disarmament.

M. Jacomet (France), General Rapporteur of the Technical Committee, made the following statement:

"The machinery of limitation and publicity of expenditure submitted to you is based on a number of general principles which form the legal foundation of the future Convention.

(a) The Committee suggests that the limits of the Convention’s sphere of application should be fixed by a definition and a conventional list of national defence expenditure.

This definition and this list together will relate solely to the specifically military expenditure necessitated or entailed by the existence of military formations and by measures immediately connected with preparations for national mobilisation.

True to the spirit in which the preliminary work of the Conference was carried out, and in compliance more especially with the conceptions at the root of the Budgetary Experts report, the Technical Committee suggests excluding from limitation and publicity, expenditure of a general nature which may be of military importance in the sense that they contribute to increasing a country’s fighting power—i.e., its war ‘potential’."

Your first duty will be to decide whether such a conception, which is necessarily somewhat arbitrary, defines sufficiently closely the common obligations which the parties are to accept, and whether, also, it corresponds to the terms of the resolution of July 23rd, 1932, fixing as the special goal of your work the alleviation of the financial burdens of the nations.

You will find all the factors required for forming a judgment in this connection in Chapter II of the report.

(b) All expenditure for the purposes specified in the definition and conventional list should be subject to limitation and publicity undertakings, whatever the origin or nature of the resources out of which the expenditure is met.

After defining the sphere of application of the future Convention, it was necessary to see how each country’s national defence expenditure could be identified and listed.

The investigations made by your Committee very soon showed that States entered their national defence expenditure in documents of very varying structure, and that it was therefore inconceivable that they could prove compliance with their contractual obligations established on one common juridical basis by means of such diverse instruments.

In confirmation, therefore, of its predecessor’s conclusion, the Committee found it necessary to create a uniform framework within which States would be obliged to enter all their national defence expenditure within the meaning of the Convention in accordance with very strict rules.

This framework is the Model Statement with which delegations are already familiar, and which is the keystone of the machinery proposed.

It will be your duty, therefore, to decide whether proof of any undertakings given in respect of the limitation and publicity of expenditure will entail the presentation by all countries of their national defence expenditure on uniform lines.

(c) Having from the outset acquired the conviction that such an instrument was necessary, and having given this conviction concrete form, the Technical Committee considered the problem of what should be entered in the Model Statement. Naturally, the Model Statement should contain national defence expenditure as defined in the Convention. The question, however, was what should be the exact meaning of the expression ‘expenditure’, and that problem was certainly not so simple as might at first be thought.

Expenditure involves a number of processes and bears several meanings. I do not propose to use here any of the technical terms of finance, which sound so unattractive.

To expend funds is simultaneously or successively to authorise expenditure, to enter into and acknowledge commitments, in the last resort; and chiefly, a universally understood term, it means to pay—that is, to transfer to creditors amounts representing the value of services rendered or goods delivered.
“We propose that you should take this final operation of settlement of expenditure and make it the legal basis of the Convention. Our choice is due to the cardinal consideration that, by limiting and making public the expenditure on armaments, we intend, so far as possible, to limit or make public the actual quantities of armaments purchased. Now, it is the payment which, as a general rule, is the operation of settling expenditure most nearly simultaneous with the rendering of services or the delivery of goods.

Furthermore, payment is the only operation of settlement of expenditure which all countries enter in their accounts.

You will have to decide whether, as the Technical Committee proposes, it is payments which will have to be entered in the Model Statement as the legal evidence of compliance with contractual obligations.

* * *

“There is another very important general principle which is briefly expressed at the beginning of our report, but the truth of which is actually only demonstrated in the final chapter, since, technically speaking, it is in a way the general conclusion of our investigations.

The Committee considers that, taking countries or regional groups as a whole, no comparison between expenditure on armaments can give an exact idea of the relative size of the actual armaments.

The Committee nevertheless considers that, if the facts are correctly interpreted, and above all if variations in the purchasing power of currencies are taken into account, the comparison of the expenditure returns of the same State from year to year will enable the evolution of its expenditure on armaments to be followed, and will provide very useful information as to the variations of its armaments themselves.

The conflicting views to which such statements gave rise have been reconciled during the discussions, and a joint formula has been found which recognises and confirms the correctness and appropriateness of the various opinions expressed.

It will be your duty to refute or confirm these conclusions. If, however, you adopt them, you will always have to bear them in mind in the discussion, as they dominate most of our technical demonstrations.

* * *

“If you adopt the general principles on which the Technical Committee proposes to base the future undertakings regarding limitation and publicity of expenditure, it will be your duty to decide how these general principles can be adapted to the practical purposes of the Convention.

The draft Convention drawn up by the Preparatory Commission contains three articles on limitation of expenditure:

‘Article 10: Limitation of annual expenditure on material for land armaments.

‘Article 24: Limitation of annual expenditure on material for naval armaments.

‘Article 29: Limitation of the total expenditure of each of the High Contracting Parties on armed forces and formations organised on a military basis.

The same draft Convention contains two articles regarding publicity of expenditure:

‘Article 33: Publicity of expenditure by categories of materials.

‘Article 38: Publicity of total expenditure on national defence.

I should point out that each of these articles is accompanied by a footnote, reading as follows:

‘In pronouncing on this article, the Governments will take into account at the Conference the report requested from the Committee of Budgetary Experts which will have been forwarded to them in order to permit of the drawing up of the annex to this article.

The Committee of Budgetary Experts was convened immediately after the close of the proceedings of the Preparatory Commission, and its report was forwarded direct to the Governments at the end of February 1931.

The terms of reference of the Committee of Budgetary Experts were, therefore, to study the details of application of the articles of the draft Convention concerning limitation and publicity.

The Technical Committee, having taken over as a whole, and in the light of the documentation received, the study of all questions dealt with by the Committee of Budgetary Experts, endeavoured to determine whether, in the present state of affairs, the technical conditions necessary for applying the articles of the draft Convention concerning limitation and publicity already existed.

* * *

Let us take first the articles of the draft Convention concerning limitation of expenditure –i.e., Articles 10, 24 and 29. According to a note appended to the latter article, the Committee of Budgetary Experts was instructed to study the possibility of a distinct limitation of the expenditure on land, sea and air forces.
The technical conditions necessary for giving effect to the various kinds of limitation laid down in the draft Convention would appear to be of two kinds: the technical conditions peculiar to each form of limitation proposed, and the general technical conditions essential for all the kinds of limitation suggested.

For the sake of clearness, I will deal in turn with:

The problem of global limitation, as presented by Article 29;

The problem of separate limitation of the expenditure on the three forces, as contemplated in the note appended to Article 29 of the draft Convention;

The problem of limitation of expenditure on land and naval material (Articles 10 and 24).

The Technical Committee considered that the special technical conditions necessary for the application of Article 29, dealing with global limitation, were the following:

(a) It should be possible for each country to make a full and correct return of its national defence expenditure within the meaning of the Convention;

(b) It is essential that a supervisory body should be able to check sufficiently closely for practical purposes the full statement of each country's national defence expenditure.

Part III of the report is devoted to a study of these two technical considerations.

You will observe that the Committee has unanimously adopted an affirmative conclusion as regards each country's ability to make for practical purposes a full return of its national defence expenditure.

As regards the degree of 'controllability' of the complete return of each country's national defence expenditure, the Committee considers that, for the practical purpose for which such verification is required, it will be possible to verify with a high degree of accuracy by means of the accounts whether the rules proposed by the Committee for calculating the total national defence expenditure are being applied by the States.

The German and Italian experts have pointed out that the possible margin of error when a supervisory body checks the total national defence expenditure of a country is not always negligible.

Part III of the report gives you all the data necessary to decide whether the special technical conditions for the application of Article 29 at present exist.

Chapter IX contains a study of the special technical conditions necessary for the separate limitation of the expenditure on the three forces. The Committee considers that the degree of 'controllability' of the expenditure on the three forces is considerably lower than that attainable in checking the aggregate expenditure of each State. In the conclusions given on page 93, the Committee was careful to submit the various data by means of which the Expenditure Commission will be able, with all the facts before it, to adopt decisions. These latter will probably have to be based essentially on the view it takes of the degree of 'controllability' necessary if separate limitation of expenditure on the three forces is to be possible.

The problem of limiting expenditure on land and on naval material has been thoroughly studied by the Committee, which considers that expenditure on land and naval material is far less verifiable than the total expenditure of each State. The conclusions are submitted in the same form as those concerning the limitation of expenditure on the three forces, and, by taking in turn the alternative conclusions offered, the Expenditure Commission should easily be able to arrive at decisions.

Payments to be entered in the Model Statement must be taken from the accounts of the various countries. Usually, however, public departments cannot incur expenditure without receiving preliminary authorisation to do so from the public authorities. The act authorising expenditure is the budget, and all the countries whose returns have been examined by the Committee prepare budgets. That is why the accounts of expenditure chargeable against budgetary credits always show in juxtaposition the authorisation—i.e., the credit and the payments made under that authorisation.

It is when expenditure is authorised that public authorities have to state clearly the actual purpose of the expenditure. For the real purpose of the expenditure to be known, the payment must necessarily be brought into juxtaposition with the credit. The authenticity of the payments entered in the accounts depends on the way in which the actual execution of the budget is supervised and the accounts audited. These are the real reasons why the Expenditure Commission asked the Technical Committee to make a study of the budgetary system of the various countries.

The results of this investigation by the Committee will give the Expenditure Commission a sufficiently accurate idea of the various budgetary systems and enable it to judge to what extent the obligations reciprocally accepted could be observed if a Convention on publicity or limitation were concluded.

Juridical proof of observance of limitation undertakings therefore depends on a certain amount of publicity being given to authorisations of expenditure and on the existence of accounts which are subject to verification by higher supervisory bodies and are published
prior to or after such audit in forms and within periods which meet the requirements of the Convention. The Expenditure Commission will find in Chapters V and VI the reasoned opinions of the Committee and of certain of its members.

"I would respectfully draw the Expenditure Commission's particular attention to the weighty views expressed on pages 47, 50 and 51 of the report, as they seem to me to be particularly important for the decisions of the Commission.

"Chapters V and VI of the report, taken as a whole, and more particularly the passages I have just mentioned, will give the Expenditure Commission all the data necessary to decide whether it proposes to regard as authentic the payment figures entered in the closed accounts of the various countries, and whether, in the case of countries which at present are behindhand in publishing their accounts or whose accounts when issued are not sufficiently detailed, it can be regarded as sufficient for the conclusion of the Convention that they should give a contractual undertaking to publish their accounts within a sufficiently short period and in forms suited to the requirements of the Convention. That is a capital point which you will have to consider.

"Another condition for giving effect to any Limitation Convention is that the purchasing power of the national currencies in which the contractual limits will be expressed should remain more or less stable. The Committee has formally expressed its view on this point on page 127 of the report:

"'The Technical Committee considers that, if violent and at the same time very rapid changes affect the purchasing power of currencies, and if these changes are not universal and occur at different times and in a different measure for various countries, the system of limiting expenditure could no longer function.

"'But, if price fluctuations are not too violent, the Committee is of opinion that the "living system" which it recommends will allow of a re-adjustment of the limits that will enable the latter to retain their full contractual value.'

"The problem of re-adjusting limits in the event of fluctuations of the purchasing power of currencies will doubtless have the Commission's thorough consideration.

"You will find explained and classified in Chapter XII all the considerations you need for your decisions: actual data showing the price fluctuations which have occurred during recent years; juridical definition of the re-adjustment of limits, which is not a revision but a change in their monetary expression.

"After rejecting the possibility of an automatic re-adjustment of limits by means of the national index figures of prices or an international index figure for the costs of armaments, the Committee suggests that you should give a living organism power to re-adjust limits.

"It proposes for the working of this organism a procedure which is essentially intended to eliminate all political considerations from the re-adjustment of limits, a problem which, in its opinion, is purely statistical.

"The Committee explains the kind of evidence which it thinks should be attached in support of applications for re-adjustment. Alongside the Committee's proposals you will find certain observations submitted by some of its members, a glance at which shows the important bearing it has on your deliberations.

"The Technical Committee hopes that the Expenditure Commission will find in Chapter XII of the report everything necessary to enable it to reconcile the conflicting views inherent in the re-adjustment of limits in the case of fluctuations of purchasing power.

"On several occasions, more particularly when deciding the possible effect of deferred payments on the efficient working of the Convention, as well as the practice of commitment authorisations and credits, the Committee has expressed the view that, the longer the period for which the Convention is concluded, the more effective budgetary limitation will be.

"The Committee has assumed that a General Convention will be concluded for an unlimited period—in other words, that it would be tacitly renewed on the expiry of the successive terms prescribed for its application in accordance with Article 57 of the draft Convention. It would be advisable for you to decide whether such a juridical conception really squares with the requirements of a Convention on Limitation and Publicity of Expenditure. If so, the idea should not be lost sight of in the discussions which may ensue in the Commission regarding the efficacy of budgetary limitation.

"Let us now consider the articles of the draft Convention on publicity—viz., Articles 38 and 33.

"'Article 38: Publicity of total expenditure on land, sea and air armaments.

"'Article 33: Publicity by categories of materials of expenditure on upkeep, purchase and manufacture of war materials of the land and sea armed forces.

"As regards the publicity of expenditure contemplated in Article 38 of the draft Convention, the Expenditure Commission will find all the elements of a decision in Chapters XI and XVI as regards the actual form of the Model Statement by means of which this publicity could be achieved.
"The views expressed and the conclusions contained in the Technical Committee's report regarding the application of Article 38 are submitted unanimously.

The unanimity felt regarding the technical conditions for applying a system of publicity is, moreover, very evident from the combined text of the Technical Committee's conclusions and the general reservations submitted by the various members of the Committee which are annexed at the end of the report.

One of these reservations, signed by the German, Italian and Japanese experts, suggests that publicity should be applied for a period of from four to five years, after which the situation should be re-examined in order to ascertain whether by then it is possible to apply the system of budgetary limitation recommended by the report—i.e., to frame a Convention on the legal basis of the payments effected. The American expert's reservation emphasised, not only the value of budgetary publicity, but also the practicability of its application.

I should point out that the Committee has on several occasions suggested in its report the possibility of machinery combining limitation and publicity.

On pages 107 and 108 of the report the Technical Committee shows that detailed publicity would be necessary to prove observance of the limitations laid down in the draft Convention, and would help to facilitate supervision of the figures produced to prove that those limitations have been observed. Even in the event of the Conference adopting global limitation only, the Committee expresses the view that it would be necessary to prove observance of such limitation by means of a fairly detailed Model Statement. To be sure of the correctness of all the figures composing the grand total of national defence expenditure, it is necessary to analyse all the items of the accounts in which those figures are entered. The more detailed the Model Statement, the more necessary it is to analyse the accounts, in order to discover the real purpose of the expenditure, and the more effective the supervision devolving upon the Permanent Commission will be. Supervision of global limitation of expenditure on the basis of a detailed Model Statement will, in the Committee's opinion, give a useful idea of the savings effected as a result of reductions made in armaments themselves—for instance, effective and war material.

Whether it be, therefore, the technical conditions necessary for applying the articles of the draft Convention on Limitation—viz., Articles 10, 24 and 29—whether it be publicity as prescribed in Article 38, or whether, again, it be a combination of publicity and limitation, the Expenditure Commission will, I think, readily find in the report all it needs for its decisions.

As regards Article 33 of the draft Convention, the text of which I have given above, the conclusions of the Technical Committee are also unanimous; but this is, if I may say so, a negative unanimity, since the Technical Committee confirms the conclusions of the Budgetary Experts' report—that it is impossible to insert in an international Convention a contractual clause requiring more detailed publicity of expenditure by categories of materials than that contained in the tables of Head IV of the Model Statement for each of the land, naval and air forces.

I shall say a few words only with regard to the instruments themselves which form the machinery of limitation and publicity. Those instruments are the Model Statements, the annexed information and the reconciliation tables.

The Model Statement before you is very similar to the original Model Statement prepared by the Committee of Experts on Budgetary Questions.

I must, however, draw attention to an important change in the arrangement of Head IV with regard to expenditure on naval material. The Technical Committee proposes that a distinction should be drawn between expenditure on construction, including arms and ammunition—that is to say, total expenditure on construction of ships—and expenditure for maintenance of navies. The reasons for the proposed change are set out at length in the report.

An examination of the information to be given in the Model Statement would lead me into too detailed technical considerations; but I shall, of course, be at the Commission's disposal during the discussion to supply any technical explanations it may desire.

With regard to the reconciliation tables, which are of fundamental importance in the machinery of limitation and publicity, as well as for the supervision of contractual obligations, I have to point out to the Expenditure Commission that, in accordance with the German expert's proposal, we have adopted the principle of uniformity. You will find all the necessary facts with regard to the nature of these reconciliation tables, the idea underlying them, and their value in Chapter XVIII.

The Committee is in complete agreement with regard to the whole of this part of the report, as the instruments apply, not only to publicity under Article 38, but also to limitation.

The divergencies of opinion which were revealed in the Committee related only to the use to be made of these instruments for purposes of limitation.

My statement would be incomplete if I did not put clearly before you all the measures provided by the Technical Committee to ensure efficacious supervision of limitation and publicity obligations.