In Part VII of its report, indeed, the Technical Committee, aware that the juridical proof of the observance of limitation and publicity obligations based on payments made could not be produced until after a long period (fourteen months after the end of the financial year), felt it should propose additional publicity, which should largely counterbalance that disadvantage.

The Technical Committee proposes that, at any rate when the Convention first comes into force, the States, whatever their budget system, should send to the Permanent Disarmament Commission, in the form of the Model Statement, an estimate of the payments which they expect to make during the financial year. If, therefore, the national defence services, in addition to the annual credits allotted to them, can make expenditure out of global authorisations covering several years, the Model Statement should show, not only the estimated payments to be made out of annual credits, but also the amount of the payments it is expected to make during the year out of credits covering several years.

The method proposed by the Committee would therefore tend to restore the rule of budgetary annulé in the international sphere, to which there are numerous exceptions in several States.

As the budget is executed, any financial laws and measures modifying the estimated expenditure should be communicated to the Permanent Commission, which could then watch the financial strength devoted by each State to its armaments.

After the end of the financial year, the States would communicate to the Permanent Commission, in the form of their internal accounts, the amount of their national defence payments.

Finally, when the internal accounts were published, the States would have to send a Model Statement of payments compiled from those accounts in the form of the Model Statement. That statement would serve as juridical proof of the observance of limitation obligations.

In a number of countries, the results of the audit by the higher supervisory bodies would not be announced until after the publication of the accounts. That is in the very nature of the institutions. In these cases, the Model Statement could be filled in from the published accounts, and there would be no need to await publication of the results of the audit, provided, however, that the results were produced regularly within the period fixed by the laws of the country.

In asking States, when voting or fixing their budgets, to keep the estimated payments for the year within the contractual limits and to indicate very soon after the end of the financial year the sums disbursed for national defence; in asking them, finally, for legal proof of their contractual obligations on the basis of the payments shown in the published accounts, the Technical Committee, in fact, proposes that the voting or adoption of the budgets, their execution and the supervision of their execution, shall be entirely dependent upon and conditioned by the contractual obligations with regard to limitation. The observance of the rules of public accountancy in each State would then ensure that contractual obligations were respected.

These considerations are extremely important. They appear, of course, only as a final conclusion of the report; but it seems to me that they must to some extent dominate our discussions, and it is for that reason that I venture to draw the attention of the Expenditure Commission to this point.

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The Committee proposes that supervision of limitation and publicity undertakings should primarily be in the nature of a book-keeping audit, but that the results of this audit should be to some degree elucidated and interpreted by means of a general inspection of the expenditure of countries on their armaments carried out with the help of documents to be communicated to the Permanent Commission as recommended in Chapter XIX of the report.

It will be for you to decide whether the conception of supervision as set out by the Committee in Chapter XX meets the requirements of reciprocity in respect of the contractual obligations to which States will have to subscribe.

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I think I should draw the Expenditure Commission’s attention to the fact that certain technical problems relating to the fixing of limits have been conditionally discussed. This is the case with the problems connected with the fixing of an annual average limit of expenditure covering a certain number of years. The Technical Committee thought that, so long as the repercussions on each State of the Disarmament Conference’s decisions were not determined, it could not definitely commit itself as to the actual machinery for fixing annual limits.

Once it has decided on the actual principle of limitation, however, the Expenditure Commission will find in the alternative version of the questions raised by this problem the elements on which its views are based.

The problem of transfers between the limits of the three forces has also been dealt with in the same conditional manner. When, however, a decision has been taken regarding limitation of expenditure on the three forces, we trust that the statement of the problem of transfers which you will find in Chapter XIV of the report will make your decisions easier. Lastly,
I would also draw the Expenditure Commission's attention to one problem which, though it has nothing to do with the actual fixing of limits, is of very great importance as regards determining the observance of contractual obligations. This is the special procedure for certain exceptional and unforeseeable expenditure not involving an increase in the armaments of the country incurring it.

"In this connection, the Committee has proposed a quite definite procedure, and it will be your duty to say whether you think this procedure advisable and suitable for embodiment in a contractual provision."

"I trust that I have shown how the Technical Committee's report can be utilised by the Expenditure Commission in taking its decisions and preparing those of the General Commission. The reason why we have reported at such length is that we were anxious to elucidate all the technical data which you need for your enlightenment and to avoid as far as possible your having to re-open the discussions which took place in the Committee. If we have succeeded, you will speedily be able to adopt practical conclusions which, we sincerely trust, it will be possible to embody in the first Convention for the Limitation and Reduction of Armaments."

M. FRANÇOIS (Netherlands), Rapporteur, explained that, since the Technical Committee was formed, he had been unable to attend its proceedings. He thought his task, and also that of the Commission, would be greatly simplified if M. Jacomet were appointed joint Rapporteur. He made a formal motion to that effect.

On General BARBERIS'S request, the Committee decided to defer a decision on the Rapporteur's motion until the next meeting.

FIFTEENTH MEETING

Held on Tuesday, May 23rd, 1933, at 3.30 p.m.

President: M. DE VASCONCELLOS.

39. APPOINTMENT OF A JOINT RAPPORTEUR OF THE NATIONAL DEFENCE EXPENDITURE COMMISSION TO THE GENERAL COMMISSION.

General BARBERIS (Italy) gave his entire support to the appointment of M. Jacomet as the Commission's joint Rapporteur in accordance with M. François' proposal of the previous day. He wished, however, to explain why he had hesitated and had asked for the decision on this question to be adjourned until the present meeting. The majority of the Technical Committee had in a preliminary draft report considered that the technical conditions necessary for the application of a system of limitation were already realised. When this document was being discussed, four out of ten experts had considered that that was not the case and that it was incorrect to say that a system of budgetary limitation could already be operated. The majority of the Committee had finally decided to adopt, instead of the positive formula which he had just quoted, the much more moderate sentence which appeared in Point 106 of the conclusions to the report. In those circumstances, General Barberis had wondered whether it was really advisable to appoint as the Commission's joint General Rapporteur a representative of one of the extreme opinions expressed in the Technical Committee. Over against these hesitations he had set the absolute confidence he felt in M. Jacomet's scrupulous impartiality, and unreservedly supported M. François' proposal.

The Commission decided to appoint M. Jacomet joint Rapporteur to the National Defence Expenditure Commission.


M. SANDLER (Sweden) remarked that the Expenditure Commission's task was, not only to examine the technical aspect of the questions before it, but also to prepare the decisions to be taken by the General Commission.

1 Document C.T.160(1).
He stressed first the unanimity with which the Technical Committee had adopted the definition of the term "national defence expenditure" and had decided to take payments as the basis of the future Convention. The Committee had similarly been unanimous in recognising that each country could make a complete return of its national defence expenditure and that it was possible to check the figure of this expenditure with a high degree of accuracy. It might therefore be said that on all these questions, as, incidentally, on most of the essentially technical questions, the members of the Committee had been in mutual agreement. Conflicting views, however, had been expressed when the Committee came to deal with problems which went somewhat beyond the strictly technical sphere. Those were all questions which the speaker thought should be settled, not by the Technical Committee, but by the Expenditure Commission or even by the General Commission when necessary.

M. Sandler proposed to discuss the questions before the Commission from the standpoint that limitation of expenditure should be regarded, not as an isolated measure, but as one of the essential elements of a complete system of disarmament. As regards the purpose of this method, he might usefully point to a conclusion which emerged from the Technical Committee's investigations—viz., the impossibility of comparing the armaments of various countries by a comparison of their expenditure. National defence expenditure gave no criterion for a comparison between armaments. One advantage of this conclusion was that the method of budgetary limitation could be made elastic by giving separate consideration to each country, a thing which could not be done in the case of the existing methods of direct limitation of material or personnel. The result was, as the Technical Committee explained in Chapter XVIII of its report, that one country could be allowed to include in its Model Statement expenditure which another country would be authorised in certain circumstances to exclude. The principle of "non-comparability" was therefore at the root of the system recommended by the Technical Committee.

M. Sandler then explained why the Swedish delegation favoured the limitation of national defence expenditure.

The Swedish delegation had already stated during the general discussion at the opening of the Conference that, in its opinion, a Disarmament Convention should cover all the essential factors in a country's armaments, so that States would not be tempted to direct their efforts to factors which were not limited. Thus, it was not sufficient to limit the various categories of armaments—whether quantitatively or qualitatively, which in the final resort was one and the same thing—there should also be an indirect method of preventing an increase in or improvement of authorised or non-limited armaments. The General Commission, in its resolution of July 23rd, 1932, had pointed to the danger of "the measures of qualitative and quantitative disarmament to be inserted in the Convention being neutralised by increases or improvements in authorised armaments". Only by a combination, therefore, of direct and indirect methods could the aim of the Convention be achieved.

In this connection, M. Sandler thought it well to remind the Commission that, though the budgetary method only limited material indirectly, it nevertheless had a very direct effect on the amounts spent by each country on the upkeep and development of its armed forces.

Another advantage of budgetary limitation was that it encouraged economy. The expectation from a Disarmament Convention was not merely that it would stop competition in armaments but also create conditions conducive to economic recovery. That recovery could only be ensured if steps were taken to avoid squandering sums which for the whole world amounted to astronomical figures. The real worth of these possibilities of limiting national defence expenditure would certainly be appreciated at the London Economic Conference.

To these general considerations the Swedish delegation wished to add another to which it attached no less importance. Whereas, when the preliminary proceedings of the Conference started, there were rather conflicting views expressed even on the principle of international supervision, opinions on this question had become remarkably similar and uniform, so that, at the present moment, there was an almost unanimous trend in favour of establishing effective and constant supervision. This supervision, the basic elements of which had been laid down in the Bourquin report, the need for which had been emphasised in President Roosevelt's message and which was given great prominence in the United Kingdom draft Convention, should relate, not only to observance of the limits laid down for effective and application of direct methods for the limitation of material, but also to the whole of a country's expenditure on its armaments. The simplest and most tangible expression of the effort expended by a country on its armaments was the figure of its national defence expenditure. The Technical Committee had arrived at the conclusion that it was possible to check the grand total of a country's national defence expenditure with a high degree of accuracy.

To enable them to judge the real value of this conclusion, M. Sandler mentioned the difficulties offered by supervision in the case of most forms of direct limitation where it would be necessary, generally speaking, to rely on the figures supplied by Governments. In the case of supervision of budgetary limitation, on the other hand, not only would there be the assurance given by a Government, but, in addition, the closed accounts interpreted with the help of the reconciliation table and the explanations of the State concerned and the internal bookings, which could, if necessary, be communicated to the Permanent Commission. It was clear, therefore, that the guarantees in the second case were much more reliable.

1 See Conference Documents, Volume I, page 270.
The Technical Committee had only accepted as verifiable the figures given separately in the audited accounts, and it was on the basis of this extremely strict criterion that the Committee had formed its opinion as to the degree of "controllability" of the figures of national defence expenditure. Consequently, when the Committee said that the grand total of this expenditure could be verified with a high degree of accuracy, that statement had much greater weight than might at first be imagined.

The speaker did not think that a distinction could be drawn between limitation and publicity in the sense that the second was more easy to realise than the first. From the technical standpoint, such a distinction had no foundation, unless by publicity was meant a mere exchange of information without any check on its accuracy. If, on the contrary, they had in mind publicity as represented by contractual obligations, such publicity would have to comply with the same technical conditions as limitation. It could not, therefore, be said that the problem was to choose between publicity and limitation and to give the preference to one because it was easier to realise. The distinction to be drawn in this connection was not a technical one; it could only be made from the standpoint of the results given by each of these methods. Limitation by itself was a disarmament measure capable of reinforcing direct methods, guaranteeing continuous supervision and lightening the burden of expenditure borne by the world.

M. Sandler concluded with the declaration that the Swedish delegation was prepared to approve the Technical Committee's report as it was and would support the adoption of a contractual undertaking for budgetary limitation. He added that the Swedish Government had already arranged to facilitate the publication of such an undertaking and the exercise of international supervision, and to this end was proceeding to reorganise the internal bookkeeping of the military departments. The Swedish delegation earnestly desired that a decision should be taken in favour of budgetary limitation at the present stage of the Conference.

Mr. Carr (United Kingdom) wished to emphasise a few points to which his delegation attached particular importance: It should first be noted that the Committee had unanimously declared in favour of as wide publicity as possible for national defence expenditure. Now, an essential condition of the efficacy of a system of budgetary publicity—and this would be all the more true of a system of budgetary limitation—was that the accounts of all countries should be published at a date as near as possible to the end of the year to which they referred. The practice of Governments in this respect was found to show considerable differences, and it could not be said that Governments, so far, were in the habit of publishing their accounts sufficiently quickly to give practical value even to publicity of expenditure, to say nothing of its limitation.

Mr. Carr regretted that the Technical Committee had been unable to adopt a unanimous conclusion regarding the possibility of practically operating a system of budgetary limitation within the framework of a general system for the limitation and reduction of armaments. While the majority of the Committee believed in the possibility, with certain qualifications, of budgetary limitation, some members thought that the system of publicity should be given a five-year trial before the possibility of a system of budgetary limitation could be considered.

As regards the qualifications attached by the majority to its conclusion, the United Kingdom delegation attributed special importance to the Committee's unanimous decision that separate limitation of the expenditure on the three forces was only possible if the Conference was prepared to accept a low degree of accuracy in the figures produced. Mr. Carr thought that the inference to be drawn was that the only practical form of budgetary limitation was that of limitation of the aggregate figure of expenditure for the three forces. It was thus impossible to adopt the recommendation of the Preparatory Commission regarding separate limitation of the expenditure on land material. They might also conclude that budgetary limitation was impracticable so far as it referred to limiting the capacity of one particular weapon or one particular form of waging war. Global limitation would not prevent a State, theoretically at least, from transferring as it liked large sums from one force to another and thus modifying considerably the balance of forces between itself and its neighbours, whether on land or sea or in the air. It followed, therefore, that a system of global limitation of expenditure could not operate as a basic system, though it could be an auxiliary method in a general plan of limitation.

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to the General Commission. Mr. Carr, however, would strongly deprecate detailed discussion

special observations to make, and the same might apply to delegations which had had that privilege. In his opinion, those observations should be mentioned in the report submitted to the General Commission. Mr. Carr, however, would strongly deprecate detailed discussion of the various chapters and conclusions of the report. There was no need to follow the precedent of other Commissions which had to deal with a certain number of questions more or less independent of one another. The problem on which the Expenditure Commission had to give its opinion was a single whole. It was impossible to express separate views on each of the elements composing it. The United Kingdom delegation did not intend to do so; it thought that the Expenditure Commission’s task was to submit to the General Commission the Technical Committee’s report at the earliest possible moment, together with any observations which the various delegations might wish to submit.

M. PALMADÉ (France) briefly stated the French Government’s point of view:

In the first place, limitation and publicity of military expenditure was a subsidiary method in the sense that it should not be submitted as a self-sufficing whole but as an element to be linked up with other methods of limitation and supervision. Its function was to ensure that States did not evade the direct limitations imposed upon them by the Convention.

Nevertheless, the method had also its own particular merits.

Direct methods, for instance, could not be brought to bear on certain military activities, such as the character and intensity of military training, in and out of the army, the construction and upkeep of military buildings, transport, the equipment of the nation and of national industries for war purposes and all the measures leading up to industrial mobilisation, direct or indirect subsidies to armament enterprises, technical research and experiment, and, lastly, the purchase of component parts, the accumulation of which, for instance, in the case of gun-barrels or mountings, would give a State in a very short space of time a larger number of guns than was allotted to it by the Convention.

Budgetary limitation alone could limit a country’s military activities as a whole.

M. Palmade added that budgetary limitation would prevent the disarmament measures to be inserted in the Convention from, to use the actual words of the resolution of July 23rd, 1932, "being neutralised by increases or improvements in authorised armaments".

He explained that, while this method had no effect on stocks existing when the Convention was signed, it would affect the expenditure required for their upkeep and renewal. For this reason, the longer the period for which the Convention was concluded, the more effective would the method be.

The real merit, however, of the budgetary method lay essentially, to his mind, in the possibilities of supervision which it afforded, not only as regards limitation of expenditure itself, but also as regards other forms of limitation. It was, indeed, the only method by which supervision could be exercised mostly on the basis of documents, whereas other methods often entailed local investigations.

M. Palmade explained that the delays in the publication of accounts by France were mainly due to the fact that France was anxious to make a complete audit and to submit in proper chronological order all the book-keeping operations effected since 1914. It was thus behindhand as compared with countries which had discontinued the work of auditing transactions referring to the war period. While reserving the right to give, if necessary, any fuller explanations needed, M. Palmade explained that, in the case of the books of accountants, the work of bringing them up to date was being carried out at the rate of three financial periods per year. Only the accounts for the financial periods 1930, 1931 and 1932 had still to be submitted to the Court of Audit. For the purpose of tabling settlement laws, auditing was proceeding at the rate of two financial periods per year, because settlement laws bore not only on expenditure but also on revenue.

In any case, M. Palmade could, on the French Government’s behalf, solemnly promise that, as soon as the date of the entry into force of a Limitation Convention was decided, a severance would be made between the auditing of previous financial periods so that the accounts of the year coinciding with the first application of the Convention could be published within the requisite time-limit. For previous financial periods statements of payments in respect of military expenditure would be submitted, and these statements would be certified correct by the Court of Audit.

M. Palmade added that, in addition to the publication made of final accounts, the drafting of budgets and all requests for additional credits were given immediate publicity in the Press, so that it was possible to follow very closely the progress of military expenditure in France.

In view of the well-known attitude taken by the French Government towards the cardinal problem of international supervision of armaments, M. Palmade wished to emphasise what an important contribution the budgetary method made to supervision of armaments themselves. Effectives could be controlled by comparing the expenditure entered in the special sub-division of the Model Statement with the average cost of a soldier’s upkeep. It would, he emphasised, be possible by means of a detailed analysis of the accounts to see whether the relative amount...
of expenditure on various materials squared with the direct limits laid down for those materials. By continuous observation of the expenditure incurred by Governments for national defence purposes, a Supervisory Commission, becoming daily more expert, could, by a series of calculations and comparisons and by working out very full statistics, exercise really effective supervision over all the military activities of a country.

The French delegate then pointed out how necessary it was to have a juridical definition of limitation if budgetary supervision was to be effective. Only the existence of a contractual limit would induce States to comply strictly with the instructions of the Conference regarding the compilation of a Model Statement and its despatch in due course to the Permanent Commission. This limitation was indispensable if they wished Governments to take all necessary precautions to see that expenditure estimates were kept within the contractual limits.

After drawing attention to the elasticity which could be given to the machinery of limitation owing to the fact that armaments expenditure was not a ground for making comparisons between Powers, and pointing out that this elasticity would make it possible to allow for the standard of living and the special conditions prevailing in each country, M. Palmade concluded with the declaration that the French Government favoured the method of limitation of expenditure because it fell entirely within the four corners of the resolution of July 23rd, 1932; because, in the crisis through which they were now passing, it was felt by the nations to be the most tangible sign of disarmament; and because, on the eve of the Monetary and Economic Conference, the success of the Disarmament Conference would contribute to the success of the London Conference, not only by the renewed confidence which it would afford, but also by a reduction in taxation which was one of the essential causes of the gap between wholesale and retail prices, a gap which was one of the dynamic and fundamental factors in the present economic crisis.

The general discussion was postponed until the next meeting.

SIXTEENTH MEETING

Held on Wednesday, May 24th, 1933, at 10.30 a.m.

President: M. DE VASCONCELLOS.


M. Moldenhauser (Germany) stated that the observations he had to submit dealt with the very clear distinction which should be drawn between publicity of expenditure and its limitation; he was afraid that some confusion existed regarding this definition. He could not in any case admit, as M. Sandler had done the previous day, that the principles on which publicity and limitation should be based were identical. Publicity was possible and the German delegation was prepared to accept the proposals for publicity of national defence expenditure, provided it meant publicity under the supervision of the Permanent Commission.

It was different with budgetary limitation, to the application of which there were very serious technical objections. The German expert of the Technical Committee had, in agreement with the representatives of other countries, adduced reasons for his view that limitation of expenditure could not be realised. The German delegation, in its concern to see the Conference lead to the conclusion of a convention for the reduction of armaments, had given the most careful study to this question. The result of that study had been negative. The German delegation must endorse the German expert’s objections.

The technical considerations in the mind of the German delegation referred first to the question of supervision. It was impossible to imagine really effective supervision of the limitation of national defence expenditure. The figures of the expenditure subject to limitation would, of course, have to be taken from the closed accounts and from the audited and published exercise accounts; it should be possible to find them in certified published documents. The differences, however, between one country and another were so great that it was scarcely possible to expect their elimination in a comparatively short space of time, nor should sight be lost of the difference between one country and another as regards time-limits for submitting accounts. The experts had suggested reducing the time-limit considerably and fixing it at a maximum of fourteen months. As the experts, however, had quite rightly considered that the average of a period of at least four years should be taken, the result would be that observance of the obligations contracted by the different countries could only be proved after a considerable interval. Possibly, the fact of observance could only be established when the term of the convention had expired. It was obvious, therefore, that budgetary limitation was in present circumstances impossible.
M. Moldenhauer then referred to the tardiness with which some countries cleared and published their closed accounts. He had been glad to hear M. Palmade formally declare on his Government's behalf that steps would be taken in France to remedy this state of affairs. No illusions need nevertheless be entertained as to the considerable obstacles which States would encounter in introducing the reforms necessary to secure such a result. They should not overlook the passive resistance with which bureaucracies met every innovation. He admired the optimistic way in which the majority of the Committee had agreed that reforms of this nature could be carried out within a short time.

The German delegate then stressed the impossibility of foreseeing the changes which might be made in a country's military budget over a longer or shorter period. For instance, a country without modern armaments might, if it wished to modernise its armaments, have to incur considerable expenditure which need not be borne by another country that had already incurred similar expenditure before the conclusion of the convention.

With reference to M. Palmade's observations at the previous meeting regarding stocks, M. Moldenhauer's study of this question led him to quite different conclusions from those arrived at by his French colleague. Though budgetary limitation affected the upkeep and renewal of stocks, it had no effect whatsoever on the possibility of supplying army requirements by withdrawals from existing stocks, a possibility which would not be within the power of States having no stocks.

The German delegate agreed with Mr. Carr that the problem of price fluctuations had not been satisfactorily solved. It had been openly stated that the purpose of the United States of America's leaving the gold standard was to raise the prices of raw materials. It had also been frequently stated that the chief objective of the Monetary and Economic Conference was to find the best way of raising prices. It was impossible to foresee the remote consequences of all these endeavours. Higher prices and wages were already reported from the United States of America, but no one could say whether it was a temporary or a lasting phenomenon. The Technical Committee had recognised the difficulties of the problem and had proposed special machinery for supervision. It had not regarded as adequate automatic readjustment on the basis of the index figures of wholesale prices or of exchange rates. These latter views were thoroughly sound, but it was difficult to imagine this system being carried into effect unless the idea was to set up a gigantic organisation which the new League of Nations building would certainly be unable to accommodate. Such supervision, moreover, would be mainly subjective and would lead to considerable difficulties, since it might happen that a country would think itself entitled to adjust its limits to the new conditions created by a change in the purchasing power of currency and a few years later the Permanent Commission would say that its calculations showed that there was no ground for readjusting the limit and that the country in question had not fulfilled its obligations. In M. Moldenhauer's opinion, it was impossible to make the mutual confidence which should be at the root of the Convention dependent on such elusive and subjective factors.

These were the various reasons why the German delegate had from the beginning of the Conference attached the greatest importance to real disarmament—that is, to the abolition of offensive weapons. Such disarmament would involve an immediate reduction of military budgets. The German delegation felt it would be much more practical to choose the direct method than to adopt an indirect method which, for the moment at any rate, offered insurmountable technical difficulties. This indirect method might at first sight seem the simplest, but a mere glance at the bulky report submitted by the Technical Committee proved that that was not really the case.

M. Moldenhauer, in conclusion, said that the German delegation was prepared to accept a system of publicity of national defence expenditure, and was prepared to make a trial, the results of which would show whether in future budgetary limitation was possible; it believed, however, that it was at present technically impossible to apply a system of budgetary limitation.

He added that he fully supported the United Kingdom delegation's view as to the procedure to be followed.

M. Palacios (Spain) said that the Spanish delegation shared the optimism felt by the majority of the Technical Committee and, as M. de Madariaga had already stated in the General Commission, would vote for budgetary limitation as well as for the publicity of national defence expenditure. There was no gainsaying the enormous, almost insuperable, difficulties which budgetary limitation would encounter, but he was convinced that the same, or even greater, difficulties faced all the other disarmament problems, and every possible effort should be made to overcome them. The problem was not simply and solely a technical one; it was also a political one. There must be the will to succeed.

Referring to the procedure to be adopted, M. Palacios pointed out that the resolution of July 23rd, 1932, contained very clear indications on this point. The National Defence Expenditure Commission and its Technical Committee had been asked to submit as soon as possible their report on a system of limitation and publicity of national defence expenditure and the Bureau had been instructed to draw up on the basis of that report a plan accomplishing the purpose.
M. Koenig (Switzerland) said that his delegation accepted in principle the limitation of national defence expenditure as one of the methods calculated to reduce armaments, this being in conformity with the view expressed by M. Motta at the general discussion which took place at the opening of the Conference. He would point out that Colonel Kissling, a member of the Swiss delegation, had taken part in the work of the Technical Committee and had supported the conclusions of the report.

In the Swiss delegation’s view limitation of national defence expenditure should be regarded as one of the essential ways of limiting armaments, but not as the only method. If it were the only method, the objections just made by the German delegate would be justified, but the method was essentially auxiliary to the methods of quantitative and qualitative limitation; there would always be categories of armaments which could not be limited directly and could only be reached by means of budgetary limitation.

The Swiss delegation was in favour of giving the widest publicity to national defence expenditure, but believed that, if the Conference confined itself to budgetary publicity only, there would be a danger of the abolition of certain weapons being offset by a rise in the standard of efficiency of other weapons. There would thus be a change in the organisation of armies, but no reduction in armaments. Consequently, the limitation of effectives and material would be operative only if military expenditure were simultaneously restricted.

The Swiss delegation in principle was in favour of a system of limitation of national defence expenditure. As regards the details, it would merely point out that, in putting such a system into effect, account would have to be taken of the special situation of the various countries and of their particular military system.

Viscount Mushakoji (Japan) noted that, thanks to the untiring efforts of the Technical Committee, the Commission had the necessary data for deciding whether a system of limitation or publicity for national defence expenditure was possible or realisable in the case of the nineteen countries—including all the great Powers—whose documentation had been studied by that Committee.

M. Mushakoji was prepared to admit the value of budgetary limitation, if this indirect method of limitation could operate normally on a sound basis as an auxiliary to direct methods of limitation. He was sorry, however, to have to say that the conditions necessary for the proper functioning of a system of budgetary limitation did not yet exist in certain countries, particularly in those adjacent to Japan.

After recalling the general reservation made at the end of the General Commission’s report by the Japanese expert jointly with his German and Italian colleagues, M. Mushakoji stated that the Japanese delegation endorsed the point of view there expressed. However desirous Japan might be to lighten the burden of taxation by limiting armaments either by direct or by indirect methods, he must question all the advantages claimed by previous speakers for the immediate application of this system, seeing that conditions essential to its proper operation were lacking.

The Japanese delegation attached great importance to the fact that, while the Technical Committee was unanimously in favour of publicity of expenditure, it had been divided as regards limitation. It was desirable that in the first stage of disarmament the system of publicity of military expenditure should be universally approved.

As regards the procedure to be followed, the Japanese delegate supported the view of the United Kingdom delegation and considered that the Commission should study the opinions and observations of delegations, particularly those whose experts had taken no part in drawing up the Technical Committee’s report; it should then make a report which would facilitate the General Commission’s task when the latter came to express a final opinion on the principles to be adopted.

General Barberis (Italy) said that the Italian delegation approved the negative conclusions arrived at by certain experts on the Technical Committee as regards the possibility of applying forthwith a system of limitation of national defence expenditure. On all the other points the delegation approved the Technical Committee’s conclusions.

General Barberis pointed out that most of the previous speakers had digressed entirely from the question on the agenda. The problem of limitation of expenditure consisted of two main questions: the political question as to the expediency of budgetary limitation and the technical question, which might be described as the preliminary question, as to the possibility of putting budgetary limitation into practice. The General Commission had reserved the first question and referred the second to the National Defence Expenditure Commission. As earlier speakers, however, particularly M. Sandler, M. Moldenhauer and M. Koenig, had not kept strictly to the agenda, General Barberis would also permit himself a digression. He did
not deny the advantages of limitation of expenditure, but, if the question of its expediency were to be discussed, emphasis ought to be laid, not only on its advantages, but also on its drawbacks. General Barberis would mention briefly a few of these drawbacks.

First, a system of budgetary limitation might be most unfair in the sense that it would not affect the capital invested in armaments, but only the annual additions. Thus, if a country possessed armaments ten times stronger than another country and if it were suddenly decided to abolish the military expenditure of the two countries, the former country would for a very long period be in a privileged position as compared with the latter.

Secondly, budgetary limitation did not affect stocks, although M. Palmade had tried at the previous meeting to prove very ingeniously that reduced expenditure would ultimately affect stocks. General Barberis pointed out that, while it was true that aviation material, for instance, had a short life, that was not the case either with warship or with land armaments, or, above all, with fortifications and buildings. France had been known during the war to use a gun dating from 1842; Italy was still using an 1891 pattern of rifle; at Verdun fortifications constructed by Vauban had resisted hostile attack; Venice had a dock built in 1300; lastly, at Civita Vecchia could be seen harbour works constructed by the Emperor Trajan, which had not been repaired for eighteen centuries. The question of the expediency of limitation, so far as it was a political problem, would, of course, be thoroughly discussed at the General Commission, but it would be advisable for the Expenditure Commission to refer in its report to the question of stocks.

To return to the Technical Committee’s report, General Barberis explained why the actual data in the report led to the conclusion that the system advocated by the 1931 experts could not be put into effect.

The first reason had been fully explained by the German delegate. In view of the instability of currencies and prices, to apply a limitation method would be tantamount to utilising variable units of measurement. It seemed an exaggeration to talk of relative price stability with the case of the United States of America before them.

The second reason adduced by General Barberis was the ineffectiveness of supervision too long deferred. On this point, General Barberis and his colleague, M. Worbs, had entered a reservation. As it would be the Expenditure Commission’s duty to fix the period on the basis of which the average limit would be calculated, this argument acquired special importance.

Finally, the third reason was the failure of certain Powers to supply closed accounts. The General Rapporteur of the Technical Committee had stated very impartially the difficulties to which this gave rise. The views of the majority and the minority of the Committee really differed only as regards the shade of meaning to be expressed. The report stated that the Committee considered that the various States signatory to the Convention should enter into a contractual undertaking to provide for the publicity of their accounts within a sufficiently short period and in such forms as would satisfy the requirements of the Convention. General Barberis and M. Worbs had had a reservation inserted on the same page of the report expressing their misgivings as to the possibility of a rapid clearance of accounts in arrears and emphasising the inequality of treatment which in any case would be created as between the Powers whose previous series of closed accounts were perfectly in order and those whose first closed accounts were only presented two or three years after the Convention was signed.

General Barberis felt he should point out in this connection that the Powers whose representatives had entered reservations as to the existence of the conditions necessary for applying limitation of expenditure—i.e., Germany, Italy, Japan and the United States of America—had all brought their closed accounts absolutely up to date and published them in documents accessible to the public. Of the nineteen countries, on the other hand, whose documentary returns had been completely examined by the Technical Committee, there were three the publication of whose closed accounts was considerably behindhand. They were France, Belgium and Roumania, the last published closed accounts of which were the accounts for 1924, 1918 and 1913 respectively. Nothing could at the moment be said regarding the other Powers represented at the Conference, but the four Powers whose returns had been received since the publication of the report had not published their closed accounts within the normal time-limits. In those circumstances, it was hard not to be pessimistic as to future prospects.

True, M. Palmade had on the French Government’s behalf given a solemn assurance that the necessary steps would be taken to ensure prompt publication of the closed accounts in the event of a Convention for the limitation of expenditure being signed. Thus, so far as France was concerned, all the necessary assurances were forthcoming, but it would be desirable to have similar solemn declarations from all the other Governments.

In this connection, General Barberis wished to stress the importance of M. Palmade’s promise to submit statements of payments for previous exercises, the closed accounts of which had not been published. The Commission’s Rapporteur might usefully emphasise in his report the great importance of this promise.

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2 Ibid., page 47.
General Barberis felt entitled to state, after all he had just said, that they were still very far from being in a position which would make it possible to apply budgetary limitation. Mere promises could not be accepted as a juridical basis for contractual undertakings. Such undertakings could only be assumed on the basis of real facts, not of desires or wishes.

The Chairman, replying to General Barberis, agreed that the question of the expediency of budgetary limitation lay somewhat outside the scope of the agenda. He had felt no need to intervene, as he considered the question was, nevertheless, very closely linked up with the direct subject of the debate. Moreover, the General Commission would certainly not be sorry to see the Expenditure Commission touch upon, if not thoroughly discuss, a question on which it would have to take a decision.

M. Palacios (Spain) felt sure that he had in no way digressed from the scope of the agenda. The terms of the resolution of July 23rd, 1932, clearly showed that delegations were entitled to give their views in the Expenditure Commission on the desirability of limitation. The Expenditure Commission was not a technical committee. It had the right and the duty to examine from the practical standpoint the technical conclusions arrived at by the Committee it had appointed.

M. Palacios then pointed out that it was incorrect to say that budgetary limitation was necessarily unfair. There was no question of fixing equal limits for everyone. The resolution of July 23rd clearly stated that the special conditions of the various States should be taken into consideration. Nor was the objection regarding monetary instability entirely justified either. Prices had never been stable and there was no question whatever of applying a fixed standard to constant values.

As regards accounts in arrears, M. Palacios wished to declare that Spain, which was one of the countries whose accounts were not published regularly, regarded budgetary limitation as a form of international pressure which would compel States to put their accounts in order.

General De Siegler (Hungary) stated that, after studying the report and noting that it confirmed the conclusions of the 1931 budgetary experts, the Hungarian delegation had felt it must support the view taken by the German, Italian and Japanese experts in the general reservation inserted at the end of the Technical Committee's report. Moreover, the fact alone that four great Powers—Germany, Italy, Japan and the United States of America—had declared against the possibility of immediately applying a limitation system should not be overlooked.

To the reasons given by previous speakers, the Hungarian delegate would add some theoretical objections to the limitation of national defence expenditure.

First, it was impossible to find an adequate basis applicable to all countries. The present position could not be taken as a starting point, as that would mean placing countries in a favourable economic situation and countries which had unduly expended their military budgets in a privileged position. Nor was it possible to take a fresh starting point, since it was the budget which supplied national defence organisations and it could not conveniently be reduced. On the other hand, the various direct reductions in armaments would necessarily mean smaller budgets. It was true, as M. Palacios had pointed out, that where there was a will, there was a way. Unfortunately, in national defence questions, goodwill very often varied according to whether it was one's own case or that of others.

Secondly, budgetary limitation must necessarily lead to unfair results, unless it was preceded by direct limitation of armaments.

Lastly, budgetary limitation could not be adapted to the direct methods which would also be applied. The plan was to reduce armaments in stages, and at each stage different time-limits were laid down for the different categories of armaments. The reduction and destruction of surplus material would vary according to the kind of material and would also vary from country to country. It was impossible to imagine that expenditure could be limited until they knew the results produced by reduction of armaments and the reactions which such reduction would have upon the budget of a particular country. Reduction of military budgets could only be a sequel to reduction of armaments; it could only be computed if there was a thorough knowledge of the consequences of direct limitation in each country. Perhaps it would be possible later, in a second convention, to graft budgetary limitation on to direct forms of limitation, but for that, patience and experience were necessary.

General De Siegler said, in conclusion, that the Hungarian delegation was opposed to budgetary limitation and thought it would be sufficient for the moment to have publicity of national defence expenditure on the lines of the general reservation entered by the German, Italian and Japanese experts.

As regards procedure, the Hungarian delegate endorsed the view expressed at the previous meeting by the United Kingdom representative.

42. DOCUMENTATION SUPPLIED BY THE GREEK DELEGATION.

M. François (Netherlands), Rapporteur, intimated that full documentary information for Greece had been deposited, so that the number of Powers which had sent in returns was now thirty.
SEVENTEENTH MEETING

Held on Friday, May 26th, 1933, at 10.30 a.m.

President: M. DE VASCONCELLOS.


M. RINGELING (Netherlands) believed that reduction of national defence expenditure would not of itself furnish a satisfactory solution of the problem of reduction of armaments; it could be very useful as an auxiliary of a system of direct reduction. The Netherlands delegation was prepared to accept budgetary limitation as an integral part of a Convention providing for direct limitation of armaments.

The Technical Committee's report made it clear that, for the time being, limitation of the aggregate figure of military expenditure was all that could be practically achieved, and that the idea of separate limitation of the expenditure on the three forces would have to be abandoned, as it would entail far too sweeping a re-organisation of the book-keeping of most countries. The Netherlands delegate, however, thought that even limitation of the total figure of expenditure would make it necessary for many States to introduce serious changes in their system of accountancy, particularly as regards submitting audited closed accounts within a comparatively short period. The Netherlands was one of the countries with a rather long additional period which could only be shortened when the national legislation was amended, and this would involve certain difficulties, particularly as regards overseas territories. Nevertheless, the Netherlands delegation was prepared to recommend its Government to take steps to this end; it firmly believed that the Government would fall in with its view so far as re-organisation was necessary to make a general Convention for the reduction and limitation of armaments effective.

In the event of budgetary limitation encountering insuperable objections from some countries, publicity of expenditure would of itself mark a considerable advance, but would only be valuable if it related to audited figures submitted in a uniform Model Statement accompanied by all the necessary explanations. The changes in the internal accounting system of several States which publicity would involve would be no less valuable than those which would result from an agreement for the limitation or reduction of expenditure. The Netherlands delegation, however, thought it could say that in this case also its Government would agree to carry out this reorganisation provided publicity was not an isolated measure but formed an integral part of a general Convention for the reduction and limitation of armaments by direct methods.

The Netherlands delegation reserved the right to submit, if necessary, more detailed observations later.

Admiral HEPBURN (United States of America) conveyed his Government's acceptance of the actual principle of budgetary publicity and the methods outlined in the report for its realisation. As regards budgetary limitation, Admiral Hepburn said the report formed a purely technical study of the question whether a limitation method could in practice be applied solely from the standpoint of budgetary accountancy. In other words, the report strove to establish whether the budgetary accounts of the various countries afforded a sufficiently accurate and practical instrument for limitation purposes. Obviously, this instrument should work in harmony with quantitative and qualitative methods of limitation.

The question of the political and military consequences of such a method of limitation touched on the vital points of the disarmament problem, and it seemed to be generally admitted that the final decision on these questions should be taken by the General Commission. It should, however, be pointed out that that need not necessarily be so, since a unanimous decision by the Expenditure Commission to the effect that it was, from the purely technical standpoint, possible or impossible to give practical effect to budgetary limitation would probably solve the problem in the Expenditure Commission itself.

Although the United States Government was reluctant to object to any effective and equitable method of limitation, Admiral Hepburn felt he must frankly state that the arguments of those who had described the defects of a system of budgetary limitation regarded as a practical and technical instrument impressed him much more than the views of those who had maintained that such limitation was desirable for other reasons. It certainly appeared to be clear that it would take rather long to create such an instrument and still longer for its
M. DE MODZELEWSKI (Poland) thought that the Committee, by an excess of
conscientiousness, had perhaps gone a little too far in some of its analyses, which explained
some of the qualifications and reservations.

The man in the street, who would be found to possess commonsense, would say without
hesitation that limitation of national defence expenditure was valuable as a help in limiting
the armaments themselves. He would also not hesitate to say that an organised State knew
what it spent its money on. What the Technical Committee had done was to sift this commonsense
view scientifically and confirm it.

The Polish delegate drew the Commission’s attention to the fact that the conclusions of the
report could only be applied to the countries whose documentary returns had been examined. A
study of the documents of the other countries would show how far those conclusions could be
universally applied and what exceptions, if any, would have to be allowed. He emphasised
the elasticity which was a feature of the system advocated by the Technical Committee and
which enabled it to be applied to the various countries by making allowance for the special
conditions in which each was situated. He pointed out that the living system contemplated for
the solution of the problem of purchasing power was the only one sufficiently elastic to cope
with the effects of currency instability. Lastly, he mentioned that the Committee had unanimously agreed that no comparison of the armaments expenditure of different countries
could give any idea of the relative size of those armaments. A certain amount of comparison
was possible only to a restricted degree and in the case of countries situated in quite special
circumstances.

M. de Modzelewski then declared that the Polish Government, while fully endorsing the
conclusions of the report, accepted publicity and limitation of military expenditure, not as the
sole method of limitation, but as an auxiliary and very effective method, applied together with
other quantitative and qualitative forms of limitation. It seemed essential to include limitation
of national defence expenditure in any general system of disarmament, since, if there were no
such restraining barrier, a possible growth in this expenditure could easily be foreseen. That
would be a menace to the work of the Disarmament Conference.

Replying to the proposals of certain delegations that limitation of expenditure should
only be introduced after a number of years, M. de Modzelewski pointed out that States could
take advantage of that period to put themselves in a more favourable situation before budgetary
limitation was introduced and the result would be an armaments race which would stultify
the purpose pursued by the Conference. It was therefore essential, in his opinion, to recommend
the immediate introduction of the principle of limitation of expenditure, notwithstanding all
the difficulties due to existing financial and economic circumstances and the administrative
obstacles existing in the various countries. He stressed the fact that the system of budgetary
limitation would gain yearly in accuracy and perfection and add more and more to the effect
of the future Convention. That would be the only way of meeting the claim of world public
opinion that the competition in armaments expenditure should be stopped.

The Polish delegate, in conclusion, drew the Commission’s attention to the necessity of
completing the examination of the full returns made by all countries represented at the
Conference. That examination would take another year at least, the time materially essential
for perfecting a system which, it was to be hoped, would be unanimously adopted. During
that interval, it would be possible to remedy the administrative or technical difficulties expe-
rienced in the various countries. It might also be hoped, without being too optimistic, that
the economic and financial situation would improve and become fairly stable. In that case,
there would be no difficulty in giving effect to the principle of budgetary limitation, which,
as the Polish delegation saw it, should be an essential factor in the general system of limitation
to be set up by the future Convention.

M. LANGE (Norway) pointed out that the study of the possibility of limiting national
defence expenditure constituted the cardinal point of the efforts made to limit armaments.
The budget of military expenditure, as finally expressed in the closed accounts, was the point
where a country’s national defence requirements and its economic possibilities as regards
national defence met. The general volume of expenditure was the expression of a State’s military policy, the visible and tangible element of the effort it devoted to armaments. Any
increase in military expenditure meant an endeavour to increase armaments. Norway had on
two successive occasions, six years ago and one year ago, reduced her armaments, and had
given initial expression to these reductions by cuts in the budget. Only later was the National
Defence Ministry asked to adapt the country’s military organisation to those cuts.

The great merit of budgetary limitation was the opportunity it afforded public opinion
of informing itself on this subject. A man’s most vulnerable point, they all knew, was his
pocket.
Another merit of budgetary limitation was that it affected all States, whereas other forms of limitation only affected a few. It was embarrassing to have to recommend the reduction or limitation of a category of weapons which one did not possess oneself. Budgetary limitation offered an opportunity of putting all States on the same footing.

M. Lange discerned a third advantage in budgetary limitation in the fact that it stopped the armaments race. He reminded them that the immediate result of the Washington Agreement of 1922 limiting the tonnage of capital ships was to increase cruisers and make them more powerful. The direct limitation of effective and material enacted in the Versailles Treaty had had similar results because it was not accompanied by limitation of expenditure. They had seen that, in building the new German cruisers, the technique of shipbuilding had been developed by German technical engineers to such a point of perfection that other countries had had to match the German cruiser of 10,000 tons with vessels of 23,000 tons.

M. Lange concluded that limitation of expenditure was necessary to prevent, as the General Commission said in its resolution of July 23rd, 1932, the measures of qualitative and quantitative disarmament from being neutralised by increases of or improvements in authorised armaments. Limitation of expenditure was a necessary and essential element of any disarmament system worthy of the name. On that point he thoroughly endorsed the view expressed by the Swiss representative.

The same idea had also been expressed in the resolution of the General Commission, according to which the Expenditure Commission’s terms of reference were not to state whether budgetary limitation should or should not be applied, but to see what system of national defence would provide the means with the best guarantee of an alleviation of their financial burdens. The Expenditure Commission’s task had thus been definitely circumscribed; it was to suggest a suitable system and to give its opinion as to whether it could be applied in practice.

The Technical Committee’s report dealt so fully with all the problems referred to it that no one so far had been able to point to any defect. Almost complete unanimity of views was observable on all points. Reservations had certainly been made, but they were singularly mild. Moreover, the authors of the reservations suggested no other solution and they might therefore be regarded as the result of the hesitation felt in face of an innovation which seemed to be formidable just because it was something new. On that point he recalled the hesitations and apprehensions felt in 1907 by some countries regarding compulsory arbitration, which they regarded as a formidable danger for international relations. That arbitration had now become part of international custom, but those who in 1907 had opposed its application had assumed a very grave responsibility before history. Historians, in fact, had stressed the connection between the attitude of those countries and the calamity which later befell the world.

M. Lange felt all the more convinced that those hesitations were due to the fear of innovations, since he could find in the reservations no constructive proposal paving the way for any other solution than that of the majority. The only suggestion made was to have a trial period of from four to five years. As regards that suggestion, he could only endorse M. de Modzelewski’s warnings about the danger of a new armaments race being started.

M. Lange then replied briefly to the various detailed objections made. He supported M. Sandler’s arguments and felt that in spite of the defects mentioned, the meshes of the net enveloping military expenditure were sufficiently fine to retain even a medium-sized catch. Against all these objections the Norwegian delegate would oppose the danger of maintaining the present system, which, if expenditure were not limited, would leave the door open for improvements in authorised armaments.

The Norwegian delegate considered that M. Moldenhauer and General Barberis were making a mistake in raising the question of stocks. It was wrong to call the fact that limitation of expenditure did not affect stocks a defect in the system. Obviously, limitation of expenditure could not affect stocks which had been purchased with sums charged to previous budgets. They should let well alone and not confuse the discussion with arguments which, for all their ingenuity, were not convincing.

While fully appreciating the objection regarding fluctuations in the purchasing power of currency, M. Lange asked the Commission not to lose sight of the fact that domestic purchasing power did not greatly vary. Expenditure at home represented in most countries 80 per cent of the total; in some countries it even represented the whole of military expenditure. Moreover, the method of readjustment through the Permanent Commission seemed to be quite a satisfactory solution.

To the objection that the belated submission of accounts would be detrimental to supervision, M. Lange opposed the assurances which had just been given regarding the steps Governments would take to remedy this defect. He was sure that the system would improve in practice.

M. Lange felt compelled to state that the reservations entered were, ultimately, merely the expression of the reluctance felt in face of an innovation. He did not gather, however, that, in the present case, they amounted to a non possumus. He, therefore, appealed to the delegations concerned to reconsider the possibility of modifying their attitude. He did not think it was mere chance that the reservations had been formulated by countries specially powerful in financial or technical resources.
The negative conclusion adopted by the Technical Committee as regards the possibility of recommending separate limitation of each of the three forces enabled him to state that global limitation was preferable to the solution advocated by the Preparatory Commission of separate limitation only for the land and sea forces, ignoring the air forces; yet these were to-day the main field on which the military efforts of countries were concentrated.

The Norwegian delegation would vote for limitation and publicity of national defence expenditure, but on the express condition that there was effective supervision of published figures. In this connection, he could not too emphatically stress the observations made by M. Sandler regarding the conditions of supervision necessary for limitation and publicity respectively. Supervision was quite as essential for publicity as for limitation.

As regards the procedure to be followed, the Norwegian delegate thought that the Commission should first vote on the actual principle of limitation as it was instructed to do by the General Commission; each delegation would then have to shoulder its own responsibilities. At the same time, he agreed with the United Kingdom representative that all detailed discussion should be eliminated and that the Bureau should, on the basis of the Technical Committee's report, proceed to draft the conclusions which emerged. To these conclusions might be appended the general reservation regarding the preliminary period which, some delegations thought, should precede full acceptance of a limitation system.

M. MOLDENHAUER (Germany) first asked M. Lange whether he thought that a system of budgetary limitation would affect, to the same extent and with equal force as in other countries, the Union of Soviet Socialist Republics, where the Government was able to fix prices as it liked and to decrease, for instance, the prices of certain raw materials of particular importance to national defence by proportionately increasing the prices of other articles.
He next pointed out that the new German cruisers cost less than a capital ship used to cost and that the building of the Deutschland had not meant an increase in the military budget.

M. ZEUCEANO (Roumania) made the following declaration on behalf of the Petite Entente on the actual merits of the problem of limitation and publicity of expenditure:

"The resolution adopted by the General Commission on July 23rd, 1932, based on Article 8 of the Covenant of the League of Nations, makes disarmament by the indirect method of limitation of expenditure conditional on the special circumstances of each country.
"Subject to this explicit reservation, and being anxious to collaborate in the work of disarmament, the Petite Entente is not in principle opposed to limitation of expenditure and intends to formulate and submit in due course any requests permissible under Article 8 of the Covenant."

With this reservation, the Petite Entente approved the conclusions of the majority of the Technical Committee.

As regards procedure, M. Zeuceano supported the proposal made by the United Kingdom representative.

M. HOLSTI (Finland) said that, a year ago, his delegation had submitted a proposal according to which countries whose aggregate expenditure did not exceed a maximum figure to be agreed upon should be exempted from separate limitation of the expenditure of each of the three forces, in the event of such limitation being contemplated. The Finnish delegation would withdraw its proposal, as it would have no further point should the principle of global limitation be adopted as the Technical Committee recommended.

M. Holsti did not propose to explain why his delegation was in favour of global limitation of national defence expenditure. Those reasons had been fully given by M. Sandler, M. de Modzelewski and M. Lange. He would merely draw attention to one point to which he attached capital importance, namely, the necessity of providing a contractual clause in accordance with which the total payment in one year and the value of armaments acquired and not paid for during that year might not exceed the limitation figure fixed for each State. It was essential to give States a guarantee that their neighbours would not suddenly acquire armaments above the limit allotted to them by the Convention.

M. MATOS (Guatemala) stated that the Government of Guatemala regarded the limitation of expenditure as an essential auxiliary of direct limitation, failing which it would be impossible to include certain military activities in the operation of the Convention contemplated. Budgetary limitation, by the effect it had on the resources essential for the acquisition of armaments, gave the average individual a concrete idea of limitation of armaments themselves. It was the only method which could ensure the alleviation of taxation, a necessary preliminary to the restoration of confidence. It was the symbol of the will of

nations to reduce their armaments. It would be an introduction to the work of the Monetary and Economic Conference and would relieve the financial distress of the world.

M. Matos was therefore convinced that the countries represented at the Conference would recognise the necessity of fixing as the limit of their military expenditure a figure which would be decided upon after taking into account the special circumstances in which the various countries were situated. He trusted that countries would be moderate in their demands and concluded by affirming his belief in success.

M. Amador (Panama) observed that the report of the Technical Committee showed that the bases of budgetary supervision had now been laid and that it was possible by means of public documents and without offending anyone to follow the growth of each country's expenditure and, in that way, the growth of the various countries' armaments.

The agreement achieved on this point was, he felt, a considerable advance, which should be embodied in the first Disarmament Convention. That Convention should contain a formal provision according to which States might not improve the quality of their military equipment without reducing the quantity.

M. Amador then stressed the importance of limitation of national defence expenditure from the standpoint of the effect it should produce on the financial and economic situation by alleviating taxation. He also stressed the psychological effect of limitation of expenditure, which the nations regarded as the most tangible evidence of the limitation of armaments.

The Panama delegation would have liked to see limitation of expenditure given the most definite form. It regretted the conclusion of the report that at the present moment global limitation alone was technically possible. It thought, however, that the duty of the Conference was to give effect forthwith to what was possible.

M. Amador had no doubt that States would submit their accounts at dates which would meet the requirements of the Disarmament Convention. He stressed the importance of the declarations made on this subject and endorsed the view expressed by M. Palacios.

He did not think serious anxiety need be felt regarding instability of prices, as, notwithstanding the considerable fluctuations of currencies, domestic prices remained comparatively stable or at any rate moved in the same direction. It seemed, therefore, that the system suggested by the Technical Committee for the readjustment of limits would enable the latter to retain their full contractual value.

For all these reasons, the Panama delegation thought that the first Convention for the limitation of armaments should include clauses which would make possible the immediate limitation of expenditure.

M. Prenen (Belgium) stated that the Belgian delegation was in favour of inserting in the draft Convention the budgetary limitation clause, which it thought was a necessary complement of direct limitation.

To reassure certain delegations who appeared sceptical, M. Prenen declared on his Government's behalf that Belgium would undertake to improve its present system of accountancy in every way necessary to ensure the application of a Disarmament Convention. Moreover, the delay in the publication of accounts would soon be made up.

It would also be possible, by changing the form of the budget, to separate the expenditure of land and air forces in practically watertight compartments as well as the categories of expenditure to be transferred to the heads and sub-heads of the Model Statement.

The Belgian delegation confirmed that, in advocating budgetary limitation based on publicity of accounts as one method of disarmament, its Government was determined to leave nothing undone which would strengthen the basis of the provision to be inserted for that purpose in the Convention.

M. Lange (Norway), in reply to M. Moldenhauer, pointed out that he was taking solely the legal view when he said that budgetary limitation applied equally to all countries. No country acquired armaments without spending money. The difficulties inherent in accountancy systems and in the price movements of various countries were technical problems which should be taken into account but which made no difference to the fact that all countries incurred expenditure on national defence.

As regards the new German cruiser, M. Moldenhauer had changed the basis of the comparison. M. Lange had meant to say that this 10,000-ton cruiser had cost much more than an ordinary vessel of the same tonnage. His remark about the risk of direct limitation resulting in improvements in authorised material therefore still held absolutely good.

The continuation of the discussion was postponed until the next meeting.
EIGHTEENTH MEETING

Held on Saturday, May 27th, 1933, at 10.30 a.m.

President: M. DE VASCONCELLOS.


Viscount Mushakoji (Japan) referred to M. Lange’s remark at the previous meeting regarding the reservations made by certain members of the Technical Committee. M. Lange had said that those reservations were by no means positive and constructive objections—they merely expressed the hesitation felt about applying budgetary limitation, and he added that the reservations made by the great financial and military Powers showed the reverse of a readiness to disarm.

Nothing, in his opinion, was further from the truth. The Technical Committee’s duty was to submit a technical and purely impartial report. There could be no doubt that the experts on the Committee had worked conscientiously, impartially and sincerely. A careful study of the report showed clearly the conditions needed for the proper operation of a system of budgetary limitation and the extent to which those conditions were at present realised in certain countries. The defects noted could not be remedied by a stroke of the pen. Changes would have to be made in the financial and budgetary systems which would certainly take several years to make. In view of the complex character of budgetary limitation regarded as a method of disarmament, it was essential that the questions relating to it should be fully solved. The Permanent Commission could only supervise the audited and published accounts of each country; those accounts were, in a way, the keystone of the system of limitation. Notwithstanding the solemn promises of certain countries, the changes necessary to make it possible to submit closed accounts at the proper date could not be realised all at once. That was why certain experts had drawn attention to the necessity of providing for a trial period before the limitation system was put into effect, during which period publicity alone would be applied. Those experts had been forced to enter quite impartial and unbiased reservations, because the majority of the Technical Committee had not made sufficient allowance for the technical difficulties which immediate application of the system of limitation would encounter. It must not be forgotten that the National Defence Expenditure Commission had to examine the technical aspect of the problems of limitation and publicity and that political considerations did not come within its province. In those circumstances, M. Mushakoji felt he must frankly say that M. Lange’s remarks were inopportune.

M. BORBERG (Denmark), on behalf of the Danish delegation, declared his approval of the report as it stood and agreed with the remarks made by the Norwegian and Swedish delegates. The Danish delegation was in favour of budgetary limitation and felt that publicity alone was not sufficient. It thought that what was needed was to limit national defence expenditure after that expenditure had been reduced.

The decision which would be taken on budgetary limitation would, to his mind, be the measure of what could be hoped from the other sections of the Convention. Nothing could be more discouraging for the Monetary and Economic Conference than an admission of failure on such an important question as limiting the most unproductive expenditure which countries ever incurred. Conversely, the greatest fillip to the work of the London Conference would be if the Disarmament Conference declared that it had succeeded in stemming the flood of military expenditure.

M. TSIEN-TAI (China) said that China, as an essentially peaceful country, was, in principle, in favour of the limitation and publicity of national defence expenditure. In view, however, of the grave occurrences which had been taking place on its territory for the past nineteen months, she was forced to renew the reservations she had made at the meeting of the General Commission on July 23rd, 1932.

M. DE ARMENTEROS (Cuba) said he could not for the time being support limitation of national defence expenditure. On the question of publicity, he fully endorsed the findings of the majority of the Technical Committee.

1 See Minutes of the General Commission, Volume I, twenty-seventh meeting, page 205.
M. Feldmans (Latvia) stated that, while conscious of the difficulty of limiting armaments by budgetary methods, if the idea were to solve the whole question of disarmament by limitation only, he considered that budgetary limitation was of capital importance as an auxiliary of direct limitation of armaments. He agreed with the views expressed by M. Sandler and with M. de Modzelewski, who had emphasised the necessity of making allowance for the special situation of new countries. The Latvian delegation would therefore vote for limitation of the total amount of national defence expenditure, which it considered was the only way of stopping the armaments race. It also supported the principle of publicity of the same expenditure.

In regard to the procedure to be followed, he concurred with the United Kingdom representative’s suggestion.

M. Palmade (France) wished to try to dissipate the prejudices entertained by some members against budgetary limitation.

As regards delays in the presentation of accounts, he had already tried to show in the case of France what practical and definite steps could be taken to remedy this drawback. The work of auditing accounts would be suspended so as to make it possible to table at the required moment the Adjustment Act for the first financial period to which the Convention would apply. For each for the three preceding periods a statement of payments would be submitted certified correct by the Court of Audit. Those declarations by the French Government had been supplemented by the assurances given by the Spanish, Belgian and Roumanian delegations.

The speaker admitted that M. Moldenhauer was quite correct in saying that supervision would be even more seriously retarded by the fixing of a period for the calculation of the average limit. Obviously, if such a period were purely and simply adopted, it would be impossible to ascertain, except after very great delay, whether States had observed the limits individually allotted to them. This point could, however, be met. A solution had been suggested by M. Jacomet.1 Assuming that the average limit should be so calculated that at no time during the application of the Convention would the average expenditure for past years exceed the average limit, it would be possible to verify from year to year the observance of the undertakings assumed on this point under the Convention. Nor was that the only method conceivable.

Dealing next with General Barberis’s objections regarding the life of stocks, M. Palmade remarked that, if a capitalist earned no more interest, he would very soon find himself without any capital. That would be the position with States if they were not allowed to renew their stocks as they thought fit: they had to think simultaneously of the two factors—how long certain types were in use and how long material could be kept. Very few materials resisted indefinitely the combined action of both these factors.

M. Palmade then referred to the United Kingdom representative’s concern as to the possible consequences of the fact that only global limitation had been found to be feasible. Separate limitation being momentarily impossible, Mr. Carr was afraid that there would be a transfer from one force to another of the amounts spent by a country on its armaments, and that this transfer would shift the balance, even though the total limit was respected.

A reply to this apprehension would be found in a speech made on November 11th, 1930, by Viscount Cecil, the United Kingdom representative on the Preparatory Commission, from which he would quote verbatim the following passage:

“... Each country makes the best use it can of the money available for its armament. If you can get them to limit that amount of money, you are going to have a real limit, which would be of value in checking any growth of armaments in that country. It is possible, of course, that one country may decide to economise greatly in one particular kind of weapon and spend on another kind; but I believe everyone who has looked into the subject will agree with me that, broadly speaking, that is not what happens in one country. All the countries move together. They find a particular kind of armament is the better one, and, making certain allowances for the idiosyncrasy of each country, if there is an increase of expenditure on armaments in two countries it is probably an increase in the same direction in each. Therefore, I believe that, as a practical business move, the limiting of expenditure is going to be the most effective way in which you can limit the growth of material.” 2

To those arguments, which showed how the fact of one country following the lead of another in the direction taken by its expenditure on armaments would compensate for the shifting of the balance, M. Palmade would add another taken from his own experience when he

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had, as Minister of the Budget, been obliged to reduce French military expenditure by \( \frac{1}{2} \) milliard francs. He had found that no such reduction could be made, unless it was more or less evenly divided between the three forces, as otherwise there would be too keen opposition on the part of the services concerned. It was not so easy as they imagined to hold the scales even between the budgets of the various forces.

One of the chief concerns expressed in the Technical Committee was the difficulty caused by fluctuations in purchasing power. He would remind the Committee of the very true remarks made by M. Lange on the actual merits of the question. He himself would draw attention to the fact that, according to the graphs inserted on pages 117 and 118 of the Technical Committee's report, the curves of the index figures for wholesale prices and cost of living in the various countries were practically identical. True, the graphs on page 255 of the report, inserted at the request of the German expert, M. Worbs, revealed much wider discrepancies. That was, however, due to the fact that account had been taken of the 1926 figures for Belgium and France, in which year there had been considerable fluctuations in both countries in the value of the currency, and price movements had been disorderly. Since 1928, the discrepancy had disappeared and the movements of index figures were again identical as between country and country. He was convinced that closer study would show that the problem had less practical importance than it was attributed to it. He did not believe that every fluctuation in the purchasing power of a currency would inevitably mean asking for a readjustment of limits. Price fluctuations rarely affected the nominal amount of budgetary credits, as the latter depended also on the figures of revenue. Revenue, they knew, did not necessarily increase with a rise in prices, as it was mainly derived from specific duties calculated on the weight and not on the price. The component elements of national defence expenditure, therefore, were much more stable than was believed.

M. Moldenhauer (Germany) was glad to find that for the first time an attempt had been made to discuss the difficulties of budgetary limitation; most of the speakers before M. Palmade had confined themselves to stressing its advantages.

He had been glad to hear the declarations made on the French Government's behalf as to the steps which would be taken to remedy the delay in publishing accounts, and had equally appreciated the assurance given by the Belgian representative.

As regards the average limit, M. Moldenhauer questioned whether it would really be possible in practice for the Finance Ministers of the different countries to follow the working of the system advocated for ensuring observation of the average limit from year to year. That would certainly be assuming that the needs of military forces and prices would adapt themselves to the requirements of the average limit. In actual practice it was usually not so simple as was thought, and the conclusion was inevitable that no such system could be applied.

Turning to the question of fluctuations in the purchasing power of currencies, M. Moldenhauer agreed that it would be unnecessary to readjust limits in the years when currencies would be stabilised. If, however, it were remembered that world prices had undergone exceptionally sweeping changes, that the price of certain products had fallen by as much as 70 per cent, the question might well arise whether increases of the same dimensions would not occur in the future. One thing was certain—no one could foresee the movement of prices during the years in which the Convention would operate. They had heard that the United States of America was finally leaving the gold standard, and a fresh fall in the dollar was expected. Uncertainty was therefore universal.

The German representative did not overlook the effect of revenue on the nominal amount of credits. He knew from experiences in Germany during the years of inflation that revenue could fall even though prices rose. He also knew, however, that budgetary expenditure rose in spite of a fall in revenue, and that States were often forced to resort to loans in order to correct the discrepancy between revenue and expenditure. M. Palmade’s argument was therefore not strictly relevant.

M. Moldenhauer assured the Commission that he had no prejudice whatever against budgetary limitation. His objections were due to the clear view he took of realities. It was not he who was prejudiced; it was the other side which was too optimistic.

General Barberis (Italy) also wished to question the statement made at the previous meeting by M. Lange. After appealing to the delegations which had entered reservations regarding the possibility of immediately realising budgetary limitation to change their attitude, the Norwegian representative had said that “it was not accidental that those reservations had been made by countries which financially or technically were particularly powerful”. General Barberis asked M. Lange to explain the exact meaning of these words, which seemed to cast a doubt on the willingness of the Powers in question to disarm. Could it, moreover, be affirmed that, at the present moment, the United States of America, Germany, Japan and Italy were specially powerful in financial resources, or did the United Kingdom and France, which supported budgetary limitation, really lack technical resources?

Referring to M. Palmade’s remarks, the Italian delegate agreed that very possibly a solution could be found which would make it unnecessary to delay supervision of the observance of the average limit until after the end of the period for which that limit was computed. The
question of the average limit had never been settled. It was none the less true that, even if this particular difficulty could be removed, effective supervision would only come into operation three years after the opening of the period for which Model Statements had been submitted. At the best, the delay would be too long for supervision to be able to furnish a juridical basis for the execution of the Convention.

On the question of stocks, General Barberis noted that M. Palmade had said nothing regarding the varying life of the different materials. It was true that the period for which aviation material could be used and stored was relatively short, but that was not the case with war vessels, which lasted for thirty years; land material, which could be used for as much as fifty years; and buildings, which had certainly a much longer life. In the case of a Convention concluded for five or ten years, the question of stocks was of capital importance. M. Lange had been right in pointing out that budgetary limitation could not affect stocks purchased out of credits entered in the budgets of previous financial periods.

M. Lange (Norway) said that, in stating that the reservations in question having been made by countries particularly powerful in financial resources was not accidental, he had had no intention whatever of attributing a lack of goodwill to those Powers. He had been trying to understand the attitude of the representatives of certain countries. No one, he told himself, was really master of his own thoughts, in view of the way in which these were controlled by the subconscious. It was natural that the representatives of Powers with great economic and financial resources would unconsciously adopt a reserved attitude towards an innovation which seemed to them to involve heavier obligations for their country than for others.

That was why he felt justified in appealing to the goodwill of those countries and asking them to try to throw off those subconscious inhibitions. It was true that the big Powers at present had financial difficulties which were often greater than those of small countries, but they had also much greater resources.

M. Lange pointed out that, in several places, the Technical Committee's report recommended keeping a sense of proportion. He, too, would urge the need in this connection also of preserving a sense of proportion. Was it really necessary to lay stress on certain difficulties in order to turn down a solution which would have the immense advantage of saving the world from a fresh catastrophe?

The Norwegian delegate was very gratified that there had been no opposition in principle in the Commission to budgetary limitation. Those who had gone farthest had advocated the application of a system of publicity of expenditure for a provisional period with a view to the total realisation of budgetary limitation some years later. That was a compromise which should be utilised to try and reconcile the conflicting points of view.

The President declared the general discussion closed.

There now appeared to be unanimity on a large number of points. All the delegates were agreed, in particular, in their appreciation of the great value of the Technical Committee's report; in regarding a system of publicity for national defence expenditure as possible, but the separate limitation of expenditure for each force as impossible.

The only point on which opinions had differed was the possibility of limiting national defence expenditure at the present stage.

A report embodying the various views expressed during the discussion would be drafted and submitted for the Commission's consideration, together with a draft resolution.

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NINETEENTH MEETING

_Held on Tuesday, May 30th, 1933, at 9.30 a.m._

President: M. DE VASCONCELOS.

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45. PREPARATION OF THE DRAFT REPORT OF THE NATIONAL DEFENCE EXPENDITURE COMMISSION TO THE GENERAL COMMISSION: DRAFT RESOLUTION SUBMITTED BY THE UNITED KINGDOM DELEGATION.

The President reminded the Commission that, at the previous meeting, it had decided, in principle, to submit to the General Commission a report reflecting the ideas expressed during its discussions, and pointed out, further, that the United Kingdom delegation had submitted a draft resolution in the following terms:

"The National Defence Expenditure Commission, having examined at its sessions of May ... the report of the Technical Committee; taking note of the fact that the Technical Committee is unanimously of opinion that a system of full budgetary publicity is practicable;"
"Taking note of the fact that the Technical Committee has not been able to make a unanimous report on the practicability of budgetary limitation;"  
"Considering that a decision as to the desirability of including in the Disarmament Convention provisions for Budgetary Publicity and Budgetary Limitation is a question of principle which does not fall within its competence;"  
"Decides to refer the report of the Technical Committee to the General Commission."

Mr. Carr (United Kingdom) said he was prepared to withdraw his draft resolution. He thought the Commission had probably no need to adopt a draft final resolution.

M. François (Netherlands), Rapporteur, said that a text giving the main lines of the report would shortly be circulated to the members of the Commission. He did not feel there was any need to start a detailed discussion of the text. The Rapporteurs would be at the disposal of delegations having observations to make on the subject.

M. Lange (Norway) thanked the United Kingdom representative for having withdrawn his proposal, thus making it unnecessary for him to submit amendments. He agreed with the method of procedure suggested by the General Rapporteur.

The President asked the Commission to take a decision on the procedure proposed. He also asked the delegations to submit any observations desired to the Rapporteurs; that need not prevent them from stating, if they so wished, their special point of view during the discussion of the report.

M. Moldenhauer (Germany) had no objection to the method proposed by the Rapporteur. He saw no point in opening an immediate discussion. The various groups—that is, those in favour of limitation and those opposed to it—could meet and see whether it was possible to insert in the report a text which exactly expressed their views.

General Barberis (Italy), though sorry that Mr. Carr had withdrawn his draft resolution, agreed to the procedure suggested, which would have the effect of adopting a document of slightly wider scope than the draft resolution of the British delegation. General Barberis reserved the right to make some observations on four very important points in the draft report.

The procedure suggested by the Rapporteur was adopted.

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TWENTIETH MEETING

Held on Saturday, June 3rd, 1933, at 10 a.m.

President: M. De Vasconcellos.


M. Contoumas (Greece) pointed out that the Greek Government had already had occasion to express its views on the principle of indirect limitation of armaments by the limitation of budgetary expenditure.

During the work of the Preparatory Commission, M. Politis had shown the preference of Greece for limitation by budgetary methods. He had, however, pointed out the inequality of treatment which might result from applying this method of limitation if the special conditions of each country were not sufficiently taken into account in the spirit of Article 8 of the Covenant, such as the living conditions of the country, the purchasing power of its currency, the degree of development of its industry, the position of its war material, etc.

Since that time, the view of the Greek Government had not changed. While it agreed in principle with budgetary limitation, it could only give its definite adherence to that system on condition that the methods of application should take account of the special conditions of Greece.

The Commission discussed the draft report page by page.

M. PALACIOS (Spain) suggested the omission in 4: "Work of the Expenditure Commission" of the second half of the first paragraph, reading as follows: "and that, as the outcome of the General Commission’s resolution of July 23rd, 1932, it has not to consider the question of the desirability of such limitation or publicity”.

In the next paragraph, he suggested omitting the words "without making any recommendation on a subject which does not lie within its competence" and substituting for this phrase the words "on this subject".

M. MOLDENHAUER (Germany) thought it was necessary, in the interests of accuracy, to retain the phrases in question. The Commission had had an exchange of opinion on this subject and found that it was its duty to discuss technical questions and to leave the question of the desirability of such limitation or publicity to the General Commission. The report would not be comprehensible unless it stated that this question was not within its competence.

Admiral HEPBURN (United States of America), Mr. CARR (United Kingdom) and General BARBERIS (Italy), agreed with M. Moldenhauer.

General BARBERIS (Italy) noted that, in the third paragraph of "Technical Possibilities of applying a System for the Limitation of National Defence Expenditure", it was stated that other delegations (Japan) accepted the principle of limitation. This was in contradiction with the phrase mentioned by M. Palacios, and constituted an expression of opinion on a subject which it was agreed could not be discussed by the Commission.

M. MOLDENHAUER (Germany) would like the end of the same paragraph to be so worded as to show that Germany and the other countries referred to considered it necessary to have an experimental period in order to decide whether the limitation could be applied.

Viscount MUSHAKOJI (Japan) wished to maintain the text regarding the Japanese view. The difficulty lay, not in the principle, but in the absence of the necessary conditions for putting budgetary limitation into effect.

General BARBERIS (Italy) did not think they could consider in the report the "immediate" application of the principle of the aggregate limitation of national defence expenditure. This was a technical subject, which had scarcely been discussed in the Expenditure Committee. Of the seventeen countries mentioned, three had not sent in Model Statements, four had not presented closed accounts because they had been published very late and one—namely, Poland—had said that the principle could not be applied for one year.

Viscount MUSHAKOJI (Japan) agreed with General Barberis.

M. DE MODZELEWSKI (Poland) explained that the Polish delegation had not considered that the application of the principle of limitation could be settled for one year, because it had thought that, from a technical point of view, the general disarmament question would not be settled earlier.

Admiral HEPBURN (United States of America) asked for the insertion of the following observation after the fourth paragraph of Section 7:

"The American delegation desires to associate itself with the opinions expressed in this paragraph to the extent that it considers the system of publicity suggested would be the most practical and rapid method of determining the technical possibilities of a system of limitation."

Adopted.

General BARBERIS (Italy) pointed out that the principle of budgetary limitation was adopted by the General Commission on July 23rd, 1932, implicitly and not explicitly.

Viscount MUSHAKOJI (Japan) said that, although he recognised the desirability of drawing up a Model Statement in accordance with the estimates of expenditure, as provided in 8: "Bases of a Possible Publicity System", he felt bound to point out the inadvisability of asking each contracting party to undertake considerable detailed work, the value of which was out
of proportion to the sacrifice involved, especially at a time when each country was endeavouring
to economise administrative expenditure. On this point, the Technical Committee had
considered 1 that it would be particularly desirable to draw up a Model Statement according
to the estimates of expenditure for the first two years of the enforcement of the Convention
pending receipt of the first Model Statement based on the closed accounts. As regards
subsequent years, it would perhaps be sufficient for States to send in their budgets to the
Permanent Disarmament Commission accompanied by a very brief note communicating
the total estimated expenditure on national defence within the meaning of the Convention
to be effected through the military budgets, the total similar expenditure to be effected from
the civil budgets, special accounts or other funds, and the grand total of estimated national
defence expenditure for the year. Such a solution would mean less onerous commitments for
the contracting parties, as it would not require the competent departments to carry out the
additional work of preparing the Model Statement.

The Japanese delegation therefore asked that the report should take due account of this
opinion.

M. JACOMET (France) co-Rapporteur, said the Technical Committee had proposed that Model
Statements should be based on estimates, at any rate for the first two years, until the system
of basing them on actual expenditure could be introduced. He thought that the addition of
the words "at any rate for the first two years of the application of the Convention" would
satisfy the Japanese delegation. He pointed out, however, that it was hardly prudent to
fix an exact time, and that it should be left to the Permanent Disarmament Commission to
fix the period.

The Commission unanimously adopted the draft report, with the amendments which it had
approved. 2

The President observed that the unanimous adoption of its report by the National
Defence Expenditure Commission marked the end of an important stage in the work of the
Conference. It might, however, be necessary to convene the Commission again.

The Technical Committee would continue its work and he asked for authority to place it
in direct touch with the General Commission. He also drew attention to the fact that, if the
principle of limitation or publicity of expenditure were accepted by the General Commission,
it would be necessary subsequently to draw up detailed instructions regarding expenditure
to be included in the Model Statement.

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1 See document Conf.D.158, page 194.
2 See final text of the report of the National Defence Expenditure Commission to the General Com-
DOCUMENTS OF THE NATIONAL DEFENCE EXPENDITURE COMMISSION.


AGENDA OF THE SECOND MEETING.

Thursday, March 10th, 1932, at 10.30 a.m.

(a) Election of a Vice-President or Vice-Presidents.
(b) Election of a Rapporteur or Rapporteurs.
(c) Programme of Work of the Commission: Consideration of the List of Questions (hereunder) referred to the Commission on National Defence Expenditure by the General Commission (document Conf.D./C.G.6):

1. Article 29 (Limitation of total annual expenditure). Proposals on the subject, more particularly:
   (a) Continuous study of the budgetary method in consideration of fluctuations in purchasing power;
   (b) Budgetary limitation relating to total expenditure and to individual chapters;
   (c) Abolition of secret funds and unification of the military budget.

2. Article 33 (Publicity of land and naval expenditure).

3. Article 36 (Publicity of total expenditure).

   (a) Part of the report concerning publicity;
   (b) Part of the report concerning limitation, in so far as this part deals with the questions enumerated under 1.


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PROGRAMME OF WORK OF THE COMMISSION.

Proposals of the Bureau.

At its meeting on March 10th, the Expenditure Commission decided to adopt as the framework of its deliberations the report of the Committee of Budgetary Experts, and instructed its Bureau to draw up a detailed programme of work. It would appear from the discussions of the Commission that, although it must be clearly understood that the principle of budgetary limitation and the possibilities of combining the direct and indirect methods are questions for the General Commission, the Expenditure Commission is of opinion that decisions of principle will be facilitated by a preliminary examination of all the questions dealt with in the report of the Committee of Experts. It is understood that the Expenditure Commission would be at liberty, when undertaking this preliminary examination, particularly to stress certain chapters of the report and the proposals of the various delegations connected therewith.

It is further understood that the questions relating more directly to Article 10 of the draft Convention (Limitation of Expenditure on Land Material) and Article 24 (Limitation of Expenditure on Naval Material) will only be examined after study by the General Commission and the Naval Commission respectively.

It is on these lines that the Bureau drew up the following programme, which it submits to the members of the Commission for their approval.

With a view to facilitating discussion, the Bureau decided to group together, in what seemed to it the most logical order, the various problems connected with publicity and limitation of expenditure.

In proceeding thus, the Bureau desires in no way to prejudice any changes in the order of discussion which the Commission may desire to make for practical reasons, in particular with a view to facilitating the work of any sub-committees which may be appointed.

It is understood that, at the present stage of the Commission's work, there can be no discussion of texts of articles or annexes, but merely a first examination of the questions submitted to the Commission on National Defence Expenditure, subject to any decisions of principle which may be arrived at by the General Commission.

A. Preliminary Questions.

1. Necessity for a uniform presentation of figures for national defence expenditure of the various countries (Chapter 1: Introduction).

2. Impossibility of comparing the strength of armaments of various countries on the basis of the figures of defence expenditure (Chapter 24).

B. Form and Contents of Model Statement.

The Commission might proceed to a preliminary exchange of views on all the questions enumerated in the four following groups, while remembering that the almost exclusively technical character of these questions will probably make it necessary to refer them later to a small sub-committee of experts. The same sub-committee might be entrusted with the examination of the particulars supplied by the Governments on the state of their expenditure on armaments (see Annex):

1. Definition of the term "annual expenditure":
   (a) Definition of the term "expenditure" (Chapter 5);
   (b) Exercise accounts (Chapter 6);
   (c) Publicity of estimated expenditure on the basis of parliamentary votes (Chapter 22).

2. Meaning and scope of the term "Expenditure on national defence":
   (a) Secret funds and changes in the appropriations of funds (part of Chapter 3):
   Proposal by the Soviet delegation, document Conf.D.99, page 46 (Article 35);
   (b) Gross and net expenditure (Chapter 7);
   (c) Subsidies, loans and participations (Chapter 8);
   (d) Special expenditure caused by reduction of armaments (Chapter 9);
   (e) Extra-budgetary expenditure (Chapter 10);
   (f) Definitions in the draft annex not exhaustive (part of Chapter 12);
   (g) Carrying-forward of credits (Chapter 16);
   (h) Tables C, D, E and F appended to the Model Statement (part of Chapter 20).

Note. — The text of the programme of work adopted on March 14th, 1932, by the National Defence Expenditure Commission (document Conf.D./C.D.14) will be found on pages 7 and 8 of the Minutes of the Commission.
C. Questions specially concerning Publicity.

1. Date of despatch of returns; final accounts (Chapter 23).

2. Article 33 of the draft Convention (Chapter 19).

3. Communication of certain laws and regulations that may bear on national defence (Chapter 21).

D. Questions concerning the Fixing of Limits.

1. Virement between the limits of the three forces (Chapter 15).

2. Fixing of limits so as to allow for variations in expenditure from one year to another (Chapter 17).

3. Fluctuations in the purchasing power of various currencies (Chapter 18):
   
   (a) Proposal by the Swedish delegation, document Conf.D.99, page 48 (see also observations by the German delegation, document Conf.D.99, page 32);

   (b) Proposal by the British delegation for the constitution of a special committee of experts to study this question (see Minutes of the second meeting of the National Defence Expenditure Commission, page 3).

ANNEX.

The Council of the League of Nations, at its session of May 1931, requested the Governments to observe, as regards the budgetary particulars to be supplied with a view to the preparation of the Conference, the recommendations made by the Committee of Experts on Budgetary Questions. This Committee had recommended, in particular: (1) that each Government should fill in the Model Statement before the Conference, following as closely as possible the instructions relating to totals and to Chapter 4 (War Material) of the Model Statement; (2) that the Model Statement should be thus filled in on the basis of the last closed accounts; (3) that the method adopted should be clearly explained to the Conference.

The information received has been reproduced in the series of documents entitled "Particulars with regard to the Position of Armaments in the Various Countries" and utilised in the special edition of the Armaments Year-Book. Without going into details, it may legitimately be said that the measures taken do not always correspond exactly with the Committee's recommendations. It is true that the figures supplied will not necessarily correspond with the figures which, at a later stage of the Conference, will be subject to limitation. It is essential, however, to know exactly what method has been followed in arriving at the figures which have been supplied to the Conference. This is an essential condition for the operation of the whole system proposed by the Committee [see in this connection Chapters 4 and 14 (pages 8, 9 and 15) in the report of the Committee of Experts on Budgetary Questions (document C.I82.M.69.1931)]. The question is an eminently technical one and the Expenditure Commission could hardly undertake such an examination in a plenary meeting. In these circumstances, it would perhaps be well to appoint a Sub-Committee of Experts to undertake a preliminary examination of all the replies received and to discuss details of each reply with the help of the representative of the Government concerned.

The conclusions of the Committee of Experts would in due course be laid before the plenary Commission, to which the Committee of Experts might notify any special difficulties it encountered in the course of its work as and when these difficulties arose.

The work of the plenary Commission would, of course, be carried on simultaneously with that of the Committee of Experts.

As the work of this Sub-Committee will probably take a considerable time, it would seem advisable to set up this Sub-Committee (if the Commission approves in principle) as soon as possible.


FORMATION OF A TECHNICAL COMMITTEE.

Draft Resolution submitted by the Bureau.

1. The National Defence Expenditure Commission resolves to set up a Technical Committee, consisting of the following members:

   **Chairman:** His Excellency M. Savel RADULEESCO, Minister Plenipotentiary, Head of the Economic Division at the Ministry for Foreign Affairs, Vice-Chairman of the National Defence Expenditure Commission.

   **Members:**
   - M. Shoji ARAKAWA, Secretary of the Ministry of Finance (Japan).
   - M. F. GROBINE, People's Commissariat for Military Affairs (U.S.S.R.).
   - M. JACOMET, Comptroller-General of the Army, former Chairman of the Committee of Experts on Budgetary Questions (France).
   - Colonel E. M. G. KISSLING, Secretary of the Federal Military Department (Switzerland).
   - Mr. K. LYON, C.B.E., War Office (United Kingdom).
   - His Excellency M. Jean DE MODZELEWSKI, Envoy Extraordinary and Minister Plenipotentiary at Berne, Member of the Supervisory Commission of the League of Nations (Poland).
   - M. R. J. SANDLER, Director-General of the Central Statistics Office, Member of the First Chamber of the Riksdag, former Prime Minister, former Under-Secretary at the Ministry of Finance (Sweden).
   - Brigadier-General George S. SIMONDS (United States).
   - M. Cesare TUMEDEI, Barrister-at-Law, Member of the Chamber of Deputies, former member of the Committee of Experts on Budgetary Questions (Italy).
   - Commander Alvaro RODRIGUES DE VASCONCELLOS, former Member of the Chamber of Deputies and Budget Rapporteur in the Brazilian Parliament (Brazil).
   - M. WORBS, Counsellor at the Reich Ministry of Finance, former member of the Committee of Experts on Budgetary Questions (Germany).

   Each member of the Committee shall be entitled to be represented by a deputy.

   With the consent of the Bureau of the Commission, the Technical Committee may, if the necessity arises, co-opt other experts.

2. The Commission instructs the above Committee:

   (a) To study the documentation regarding national defence expenditure supplied in accordance with the decision of the League Council, dated May 23rd, 1931, which was adopted in pursuance of the recommendation contained in Chapter IV of the report of the Committee of Experts on Budgetary Questions (document C.182.M.69.1931.IX);

   (b) To study the documentation, information and additional explanations to be supplied, in accordance with point 3 below, by the delegations of the States represented at the Conference;

   (c) To study the technical questions in connection with the limitation and publicity of expenditure which the Commission may subsequently consider it advisable to refer to the Committee;

   (d) To submit to the Commission in due course reports on the questions referred to it for examination.

3. The Commission requests all the delegations of States represented at the Conference to be good enough to supply the Technical Committee with the additional documentation as well as with the information and explanations which might be required by the Committee in order to carry out its task.

Note. — The text of the resolution adopted by the National Defence Expenditure Commission on March 16th, 1932 (document Conf.D./C.D.4), will be found on page 11 of the Minutes of the Commission.
SUPPLEMENTARY INFORMATION REQUESTED BY THE TECHNICAL COMMITTEE.

Resolution adopted by the Technical Committee on April 12th, 1932.

In a note dated March 19th (document Conf.D./C.D.5), the Secretary-General informed the delegations that the Technical Committee set up by the National Defence Expenditure Commission had expressed the desire to receive, inter alia, the closed accounts utilised in filling up the Model Statement of each country, or, if such a document is not available, the statement of actual payments made which has been utilised for the said purpose.

At a further meeting, the Committee came to the conclusion, that, in order to examine the Model Statements of the different countries, it must have an English or French translation of the closed accounts in question, or of the statement of actual payments made in connection with national defence expenditure (whether they figure in the military budgets proper, in the civil budgets of the State or in the budgets of other public bodies or in special accounts and funds).

The Committee would like to receive such a translation as soon as possible, and requests the delegations to inform it immediately of the approximate date at which it can be supplied.

ORDER IN WHICH THE TECHNICAL COMMITTEE PROPOSES TO EXAMINE THE DOCUMENTS OF THE DIFFERENT COUNTRIES REPRESENTED AT THE CONFERENCE.

A. POWERS REPRESENTED ON THE TECHNICAL COMMITTEE.

1. Switzerland
2. United Kingdom
3. Germany
4. Sweden
5. Japan
6. Poland
7. Roumania
8. Union of Soviet Socialist Republics
9. United States of America
10. France
11. Italy

B. POWERS NOT REPRESENTED ON THE TECHNICAL COMMITTEE.

12. Cuba
13. Denmark
14. Dominican Republic
15. Egypt
16. Spain
17. Estonia
18. Abyssinia
19. Finland
20. Greece
21. Guatemala
22. Haiti
23. Hejaz and Nejd (Sa’udi Arabia)
24. Honduras
25. Hungary
26. India
27. Irish Free State
28. Latvia
29. Liberia
30. Lithuania
31. Luxemburg
32. Mexico
33. Norway
34. New Zealand
35. Panama
36. Netherlands
37. Peru
38. Persia
39. Portugal
40. Siam
41. Czechoslovakia
42. Turkey
43. Uruguay
44. Venezuela
45. Yugoslavia
46. Afghanistan
47. South Africa
48. Albania
49. Argentine Republic
50. Australia
51. Austria
52. Belgium
53. Bolivia
54. Brazil
55. Bulgaria
56. Canada
57. Chile
58. China
59. Colombia
60. Costa Rica

CLASSIFICATION OF THE OBSERVATIONS TO BE ADDRESSED BY DELEGATIONS IN ACCORDANCE WITH THE RULES OF PROCEDURE FOR THE EXAMINATION OF INFORMATION SUPPLIED BY THE GOVERNMENTS, ARTICLE 7

With reference to document Conf.D./C.D.71 (Rules of Procedure for the Examination of Information supplied by the Governments, Article 7), the Technical Committee appointed by the Commission on National Defence Expenditure has the honour to request the delegations represented at the Conference for the Reduction and Limitation of Armaments to classify the observations they may have to make regarding the documentation of the various countries under the following heads:

A. Questions relating to the budgetary systems.
B. Interpretation of the term "national defence expenditure".
C. Universality of the expenditure entered in the Model Statement.
D. Classification of the expenditure entered in the Model Statement.
E. Annexed tables.

This classification corresponds, in its main lines, to the chapters in the programme of work adopted by the Commission (document Conf.D./C.D.2).

The Technical Committee hopes that the delegations will be good enough to comply with this recommendation, which will greatly facilitate and accelerate the work of the Committee.

DRAFT OUTLINE OF THE REPORT OF THE NATIONAL DEFENCE EXPENDITURE COMMISSION.

STATEMENT BY THE RAPPORTEUR-GENERAL.


   Constitution of the Technical Committee.

3. General observations on the work of the Technical Committee.
   Expression of thanks.
   Examination of the documentation of the other States.
   Recommendation that the General Commission should appeal to States which have not yet furnished the necessary material.

4. The Commission's task is not to give an opinion on the desirability of budgetary limitation or publicity, but to examine the technical possibility of such limitation or publicity.

* * *

5. The discussions of the Commission have led to the following conclusions:

A. The Commission is unanimously of opinion that:
   (a) The several countries will be in a position to draw up, with a practical object, a full statement of their total national defence expenditure in accordance with the conventional list mentioned under B;
   (b) Having regard to the present structure of the accounts of several States, it is not possible, with a view to limitation, to effect, to an extent that would ensure adequate verification, the separation:
       (a) Of expenditure on the three forces;
       (b) Of expenditure relating to land and naval material respectively;

(3) In the present state of the accounts of most countries, effect cannot be given to Article 33 of the draft Convention (Publicity by categories of land and naval material);

(4) That the armaments expenditure of the various countries is not, generally speaking, a criterion for comparing their armaments, and that, consequently, the only object in view would be the comparison of the statements of expenditure of one and the same country from year to year.

B. The Commission adopts the opinion expressed by the Technical Committee that any system of limitation of aggregate expenditure on national defence should be based on:

1. The definition and the list of expenditure for national defence appearing in Chapter II of the Technical Committee's report;

2. A uniform presentation of such expenditure within the framework of the Model Statement recommended by the Technical Committee (Chapter III of the report);

3. The payments effected appearing in published accounts (Chapter IV of the report) within sufficiently short periods and in an appropriate form (Chapters V and VI of the report);

4. The creation of a "living organism" to take account of the fluctuations in the purchasing power of the currencies of the various countries, as described in Chapter XII of the report;

5. A special procedure for the taking into consideration of unforeseeable and exceptional expenditure (Chapter XV of the report).

The technical instruments required (Model Statement, special information attached to the Model Statement, reconciliation tables) are mentioned in Chapters XVI, XVII and XVIII of the Technical Committee's report.

C. The Technical Committee was not unanimous on the question whether all the conditions required for the application of a system of budgetary limitation are at present fulfilled. The same difference of opinion appeared in the Commission.

The main difficulties which, in the view of certain delegations, would stand in the way of the immediate realisation of the principle of budgetary limitation adopted by the General Commission on July 23rd, 1932, are:

1. The fluctuation in purchasing power. In this connection these delegations expressed the opinion that ......

2. Delay in the publishing of accounts. These delegations pointed out that ......

Other delegations were of opinion that decisive importance should not be assigned to these objections. As regards delay in publishing accounts, it was noted that, through the intermediary of their delegates on the Commission, certain States whose accounts were not regularly published, or were published after a fairly long period, had announced their willingness to assume a contractual undertaking to publish their accounts at a sufficiently early date and in a form which would satisfy the requirements of the Convention.

The following delegations were of opinion that it was possible to give effect immediately to the principle of the limitation of national defence expenditure: ......

The following delegations stated that, in their opinion, the conditions necessary for the immediate application of a system for the limitation of national defence expenditure were not yet fulfilled: ......

D. The Commission is unanimously of opinion that a system for the publicity of national defence expenditure effected in forms to be defined in the Convention and supervised by the organ established by the latter is possible.

For the putting into practice of such a system, the elements should be those mentioned in B (1), (2) and (3) above; the technical instruments are the same as for a system of limitation. It is desirable, however, to state that publicity is based, not only upon the furnishing of Model Statements of the payments effected, but also on the communication of Model Statements of estimates, budgets voted, and certain laws and regulations (Chapter XIX of the Technical Committee's report).
6. To bring to the notice of the General Commission the observations regarding the carrying-out of supervision.

7. To suggest to the General Commission the necessity of proceeding later (if required):
   (a) To the drafting of detailed instructions;
   (b) To the fixing of the derogations allowed;
   (c) To mention in this connection the necessity of the Technical Committee pursuing its work.


Geneva, June 1st, 1933.

DRAFT REPORT OF THE NATIONAL DEFENCE EXPENDITURE COMMISSION TO THE GENERAL COMMISSION SUBMITTED BY M. FRANÇOIS (RAPPORTEUR-GENERAL) AND COMPTROLLER-GENERAL JACOMET (CO-RAPPORTEUR).

I. TERMS OF REFERENCE OF THE NATIONAL DEFENCE EXPENDITURE COMMISSION.

On March 8th, 1932, the General Commission decided, on the proposal of the Bureau, to refer to the National Defence Expenditure Commission the following questions, to be dealt with without a preliminary discussion by the General Commission:

1. Article 29 (Limitation of total annual expenditure). Proposals on the subject, more particularly:
   (a) Continuous study of the budgetary method in consideration of fluctuations in purchasing power;
   (b) Budgetary limitation relating to total expenditure and to individual chapters;
   (c) Abolition of secret funds and unification of the military budget.

2. Article 33 (Publicity of land and naval expenditure).

3. Article 36 (Publicity of total expenditure).

   (a) Part of the report concerning publicity;
   (b) Part of the report concerning limitation in so far as this part deals with the questions enumerated under 1.

It will be seen from this list that Articles 10 and 24 (Special limitation of expenditure on the material of land and naval armaments) were not expressly referred to the Expenditure Commission. In view, however, of the close connections between those articles and the other articles indicated above, the Expenditure Commission was led to examine them as well in the course of its work.

Subsequently, the General Commission's resolution of July 23rd, 1932, gave some indications as to the object towards which the National Defence Expenditure Commission's studies should be directed. The resolution contains the following paragraphs regarding the question of the limitation of national defence expenditure:

"(a) The Conference shall decide, on the resumption of its labours, taking into account the special conditions of each State, what system of limitation and publicity of expenditure on national defence will provide the peoples with the best guarantee of an alleviation of their financial burdens and will prevent the measures of qualitative and quantitative disarmament to be inserted in the Convention from being neutralised by increases or improvements in authorised armaments.

(b) With a view to the decisions to be taken under this head, the Conference requests the Committee on National Defence Expenditure and its Technical Committee to continue and complete the work entrusted to its organs and to submit their report as soon as possible. The Conference requests its Bureau to draw up, on the basis of this report, a plan accomplishing the purpose aimed at and taking into consideration the special conditions of the various States."

* Note. — The corrections listed in document Conf.D./C.D.48.Corrigendum have been incorporated in the present text.

1 See documents Conf.D.100, 102 and 103 (Conference Documents, Volume I).

II. CONSTITUTION OF A TECHNICAL COMMITTEE.

In May 1932, the Expenditure Commission held a first exchange of views on the questions submitted to it. The Commission agreed that an exhaustive examination of the technical aspects of a system of limitation and publicity in respect of national defence expenditure was essential, and that, in particular, it was necessary to examine how far the Governments had been able to follow the provisional instructions given in the report of the Committee of Budgetary Experts (document C.182.M.69.1931.IX). For this purpose it constituted, on March 16th, 1932, a Technical Committee with the following terms of reference:

(a) To study the documentation regarding national defence expenditure supplied in accordance with the decision of the League Council, dated May 23rd, 1931;
(b) To study the documentation, information and additional explanations to be supplied by the delegations of the States represented at the Conference;
(c) To study the technical questions in connection with the limitation and publicity of expenditure which the Commission may subsequently consider it advisable to refer to the Committee;
(d) To submit to the Commission in due course reports on the questions referred to it for examination.

III. WORK OF THE TECHNICAL COMMITTEE.

The Technical Committee’s report (document Conf.D.158) was communicated to all the delegations represented at the Conference at the beginning of May 1933. That report, the result of thirteen months’ work, is unanimously regarded by the Expenditure Commission as a remarkable piece of work. It deals with every technical aspect of the problem of the limitation and publicity of expenditure. The conclusions it contains are based on a complete examination of the documentary information supplied by nineteen States, including all the great military Powers of the world, and a partial examination of the documentary information supplied by ten other States. Taken together, the expenditure of these twenty-nine States represents 90% of the military expenditure of the world.

The Expenditure Commission considers that the Technical Committee should continue its work by examining in turn the information supplied by the other States represented at the Conference and submit to it a subsequent report setting forth the essential facts regarding those countries. In that connection, the Committee notes that a number of States have not yet sent particulars of their national defence expenditure, and the information sent by other States is incomplete.

The Expenditure Commission recommends that an urgent appeal should be sent to these Governments to submit the necessary documentation without delay in order to enable the Technical Committee to complete its work.

IV. WORK OF THE EXPENDITURE COMMISSION.

The Commission notes that its terms of reference consist in the examination of the technical conditions for the possible application of the most suitable system for the limitation and publicity of expenditure on national defence, and that, as the outcome of the General Commission’s resolution of July 23rd, 1932, it has not to consider the question of the desirability of such limitation or publicity.

In the course of the discussion, certain delegations submitted observations on the advantages or disadvantages of a system of limitation or publicity. Without making any recommendation on a subject which does not lie within its competence, the Expenditure Commission desires to draw the General Commission’s attention to the various arguments reproduced in its Minutes.

The Expenditure Commission did not feel that it could discuss in detail all the points fully treated by its Technical Committee, which was an expert body of very special competence. On the other hand, it considered it desirable to try to deduce from the Technical Committee’s report certain particularly important conclusions and to indicate clearly the points on which it agrees that the General Commission should take decisions. This was the object of the discussion which took place in the Expenditure Commission between May 22nd and 27th.

The principal conclusions to be drawn from that discussion are set forth in Nos. V, VI, VII and VIII below.

1. Afghanistan, Sa’udi Arabia, the Argentine Republic, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Egypt, Haiti, Hungary, Liberia, Lithuania, Luxemburg, Mexico, Panama, Persia, Siam, Turkey, Uruguay, Venezuela.
2. Abyssinia, Bolivia, Dominican Republic, Guatemala, Honduras, Iraq, Peru.
The Expenditure Commission is unanimously of opinion:

(1) That the States whose documentation has been examined up to the present will be able to draw up for practical purposes complete returns of their total expenditure on national defence, as set forth in the conventional list in Chapter II of the report;

(2) That, in view of the present system of accounting of a number of States, it is not possible, for purposes of limitation, to separate with sufficient possibility of supervision:
   (a) The expenditure on each of the three forces (Note to Article 29 of the draft Convention);
   (b) The expenditure on land (Article 10) and naval (Article 24) material respectively;

(3) That, as the accounts of most countries are drawn up at present, it is not possible to give effect to Article 33 of the draft Convention (Publicity of expenditure by categories of land and naval material);

(4) That the various countries' expenditure on armaments cannot, generally speaking, serve as a criterion for a comparison of their armaments, but that a comparison of the expenditure returns of the same country from one year to another will enable the evolution of its financial outlay on its armaments to be followed and will provide very useful information on the variations of its armaments themselves (see Chapter XXI of the report).

VI. BASES OF A POSSIBLE SYSTEM OF LIMITATION.

The Commission is of opinion that any system of global limitation of expenditure on national defence which would offer the greatest possibilities of realisation would, in present circumstances, according to the Technical Committee's proposals, have to be based on:

(1) The definition and the conventional list of items of national defence expenditure given in Chapter II of the Technical Committee's report;

(2) A uniform presentation of such expenditure, in accordance with the Model Statement recommended by the Technical Committee (Chapter III of the report);

(3) The payments made entered in the published accounts (Chapter IV of the report) within periods and in forms suitable for the requirements of the Convention (Chapters V and VI of the report);

(4) A special procedure designed to take into account fluctuations in the purchasing power of the currencies of the different countries;

(5) A special procedure for taking into consideration unforeseeable and exceptional expenditure (Chapter XV of the report).

The technical instruments necessary for any system of limitation (Model Statement, special information attached to the Model Statement, reconciliation tables) would be those indicated in Chapters XVI, XVII and XVIII of the Technical Committee's report.

VII. TECHNICAL POSSIBILITY OF APPLYING A SYSTEM FOR THE LIMITATION OF NATIONAL DEFENCE EXPENDITURE.

The following delegations pronounced in favour of the possibility of inserting in the first Convention, in progress of preparation, a clause regarding the immediate application of the principle of the aggregate limitation of national defence expenditure: Belgium, Brazil, Czechoslovakia, Denmark, Finland, France, Guatemala, Netherlands, Norway, Panama, Poland, Portugal, Roumania, Spain, Sweden, Switzerland, Yugoslavia.

These delegations are aware that the putting into force of limitation will no doubt call for modifications in the accountancy systems of several States, but they do not regard this as a valid argument against the conclusion of a Limitation Convention. Any measure of international disarmament necessarily involves internal reforms.

Other delegations, whether they accept the principle of limitation (Japan), or whether they hold the view that this principle cannot and must not be discussed by the National Defence Expenditure Commission but only by the General Commission (Austria, Bulgaria, Cuba, Germany, Hungary and Italy; see IV above), consider that all the technical conditions necessary for the application of the proposed system are not at present fulfilled in all States and that hence it is not possible to apply this system immediately.

These same delegations are of opinion that the enforcement of publicity during a period of four or five years would be necessary before it could be ascertained that all the technical conditions necessary for possible limitation could be fulfilled and that hence the situation would have to be re-examined at the end of this period to decide whether it was possible to put the system of limitation into practice.
Owing to the fact that the technical instruments of limitation and publicity proposed by
the Committee are approximately the same, the Japanese delegation considers that the
application of compulsory and supervised publicity (see IX below) would also facilitate the
fulfilment of the conditions for the putting into force of limitation, particularly the production
of the published accounts by all States in a suitable form and within suitable time-limits.
The delegations of Austria, Bulgaria, Cuba, Germany, Hungary and Italy consider that
the putting into practice of compulsory and supervised publicity (see IX) would in itself
constitute one of the most effective methods of bringing about and supervising a substantial
measure of disarmament.

* * *

The Expenditure Commission feels called upon to state briefly in its report the principal
arguments which have been put forward by certain delegations against the possibility of the
immediate application of the system of limitation, and the refutation of those arguments
by the delegations which consider an immediate application of limitation to be possible.

* * *

The principal difficulties which, in the opinion of the Austrian, Bulgarian, Cuban, German,
Hungarian and Italian delegations, would stand in the way of the immediate application of the
principle of budgetary limitation adopted by the General Commission on July 23rd, 1932, are
the following:

(1) Fluctuations in purchasing power. — In this connection, the above delegations
expressed the opinion that, in the present economic state of the world, and particularly owing
to the abandonment of the gold standard by the United States, it is impossible to be sure that
the fluctuations in the purchasing power of currencies in the near future will not render the
system of limitation of expenditure inoperative or will not hamper its effective working. The
creation of a living organ, as provided for in the Technical Committee's report, would not be
sufficient to surmount these difficulties.

(2) Present state of accountancy in certain countries. — These delegations pointed out
that:

(a) Great inequality exists in the different countries as regards the subdivision of
expenditure in the accounts, so that the examination of the figures of the Model Statements
is often rendered very difficult.

(b) Certain countries only close their accounts a long time after the end of the
financial year, and it is for this reason that the Committee has been forced to recommend
that the accounts be published sufficiently promptly to make it possible for the
Model Statements to be produced, at the latest, fourteen months after the end of the
financial year.

(c) Even if this abridged time-limit was observed, the figures contained in the Model
Statements of those States could only be checked with considerable delay, and this would
be disadvantageous to the States which closed their accounts early.

(d) Certain States have been in arrears as regards their accounts for a very long time
(as much as nineteen years), and hence they are not at present in a position to submit
absolutely reliable documents for the examination of the figures of the Model Statements.

(e) In the last resort, all these difficulties of accountancy are caused by the laws and
the administrative systems of the respective countries, and, even assuming the greatest
goodwill on the part of all countries to remedy the defects in their accountancy, it may be
doubted whether they will succeed in doing so within a short time and to a sufficient
extent.

* * *

In reply to these objections, the delegations which pronounced in favour of the immediate
application of limitation pointed out that decisive importance must not be attached to the
arguments adduced.

In the first place, as regards the question of fluctuations in purchasing power, it was
observed that the system of adjustment recommended by the Technical Committee would
permit of a readjustment of the limits, which would thus retain all their contractual value.
Only very rapid and violent fluctuations, like the fall of the German mark in 1923, could, in
their opinion, prevent such a system from operating in a satisfactory manner.

Moreover, all fluctuations in purchasing power do not seem likely to lead to requests each
year for the adjustment of the figure for the limitation of expenditure. On the contrary, an
increase in prices usually obliges a State to effect economies and to maintain the amount of
its credits at the same nominal figure. Here the idea of budgetary equilibrium comes into
play; the figure of expenditure is subordinated to that of receipts. Experience shows, however,
that the receipts figure only follows the movement of prices slowly, since part of the receipts,
the "specific" receipts, being calculated by weight and volume, are independent of the
movement of prices.
As regards the observations concerning accounts, it was pointed out:

(a) That the degree of specification of a budget or an account depended, not only on the number of divisions, but also on the rational classification of expenses according to their nature and purpose. While this question is of undeniable importance from the point of view of publicity, the accuracy of the aggregate total of national defence expenditure does not depend on the number of divisions and subdivisions in the accounts.

(b) and (c) Under the system proposed by the Technical Committee, the checking of the Model Statements supplied as evidence of limitation can only take place after the production of the statements—i.e., after a uniform period of fourteen months from the end of the financial year; hence the checking of the observance of the contractual obligations will take place in equal conditions for all States. Furthermore, in order to remedy the length of the delay in producing the statement providing evidence of limitation, the Committee provided for a supplementary publicity (see VIII, below) which will enable the Permanent Commission to follow constantly the financial outlay devoted by each State to its national defence.

(d) and (e) While it is true that certain States at present publish their accounts with great delays, it should be observed that the Expenditure Commission has taken note of the solemn undertaking entered into by certain delegations to publish their accounts within time-limits fitting in with the requirements of the Convention. Thus, the French delegate has undertaken that the Bill for the settlement of the first exercice which will be taken as a basis for the Convention will be laid before Parliament with the published accounts in support of this Bill twelve months after the end of the financial year—i.e., in time for France's Model Statement to be produced fourteen months after the end of the financial year. As regards the previous exercices, the French delegate undertook that payment returns authenticated by the Audit Office would be produced in good time. A similar promise was given by the Belgian delegate. It seems sufficient to render possible the application of the system of limitation for all States to assume contractual undertakings in the Convention similar to those already announced by France and Belgium.

* * *

The Japanese delegation specially emphasised the importance which it attaches to the independence, in relation to the executive authorities of the higher supervisory organs responsible for auditing the accounts, and to the necessity of ascertaining that this independence is assured in every country before the system of limitation is applied.

* * *

The United Kingdom delegation, not having yet completed its examination of all the problems presented by the report of the Technical Committee, reserves its opinion regarding the practicability at the present time of the application of a system of global budgetary limitation.

The Canadian delegation reserves its opinion until the competent services of its Government have been able to give an opinion on the immediate possibilities of applying the budgetary limitation proposed in the Technical Committee's report.

The Indian delegation considers that it is clear from the report of the Technical Committee that, from the documents furnished by some countries and from the fact that a number of countries have not yet been able fully to comply with the requests to submit documents, it would not be possible to introduce at present a satisfactory system even of global limitation which would operate equally strictly on all States and which could be submitted to the same degree of verification. In order to introduce such a system in the future, it will be necessary for a number of countries to effect considerable changes in their systems of accountancy and administration.

VIII. BASES OF A POSSIBLE PUBLICITY SYSTEM.

The Commission is unanimously of opinion that a system of publicity for national defence expenditure put into effect in a form to be defined in the Convention and supervised on the lines of Article 7 of the report of the Bureau of the Conference (see document Conf.D./Bureau 39, Conference Documents, Vol. II) by the body provided for in the said Convention is now possible.

As regards putting such a system into practice, the fundamental factors should be those mentioned in Chapter VI under Nos. 1 to 3 above: the technical instruments of publicity should be the Model Statement, the particulars attached to the Model Statement and the reconciliation tables.

It should, however, be remarked that publicity will be based, not only on the sending-in of Model Statements of the payments made, but also on the preparation of Model Statements of the estimates of expenditure at the time of the voting or passing of the budget and on the
communication of the laws or administrative acts which modify the initial estimates of expenditure, so that the supervisory body provided for in the Convention will be in a position to follow the financial outlay devoted by each State to its national defence (see Chapter XIX of the Technical Committee’s report).

IX. SUPERVISION.

The Bureau of the Conference, in its report on the question of supervision, dated November 17th, 1932 (document Conf.D.148), requested the various technical committees to consider whether, as regards certain special subjects, other methods than those proposed by the Bureau for the exercise of supervision would be better suited to their special technical requirements. While observing that a Sub-Committee of the Bureau, in a later document (document Conf.D./Bureau 39), redrafted the text of the original report on supervision, and, while remarking that the above-mentioned documents of the Bureau have not yet been approved by the Conference, the Technical Committee complied with this request by putting forward a few special recommendations with regard to the supervision of the clauses of the Convention concerning the limitation and publicity of expenditure.

The Expenditure Commission submits to the attention of the General Commission these recommendations, which appear in Chapter XX of the Technical Committee’s report.

X. MISCELLANEOUS CONSIDERATIONS.

Certain delegations emphasised the great importance they attached to the considerations outlined in Chapter XIII of the report, Point 5, and also in Chapter XXI, Point 8. These considerations emphasise the necessity, when the limits come to be fixed, of taking into account the special situation of each State in accordance with Article 8 of the Covenant of the League of Nations and of certain particular conditions which might result from their economic and financial situation. The Commission’s attention has also been drawn to the fact that the limits of expenditure should not prevent the contracting States from regularly carrying out the programmes for the manufacture or construction of materials which may be drawn up within the scope of the Conference’s decisions or of the limitations laid down in other conventions which may remain in force.

XI. SUBSEQUENT WORK.

The National Defence Expenditure Commission wishes to draw the General Commission’s attention to the fact that, in the event of the acceptance of the principle of limitation or publicity of expenditure, it will be necessary to proceed subsequently to the drawing-up of detailed instructions, taking due account of the special administrative characteristics of the different States, with regard to the expenses which are to be included in the Model Statement under the appropriate headings.

The Expenditure Commission recalls what was said under No. III above with regard to the continuation of the Technical Committee’s work. In order to permit of the drawing-up of instructions applicable to all countries, it seems particularly important that the Technical Committee should be in a position to examine the documentation of all the States without delay.


**APPENDIX.**

**TABLING OF DOCUMENTATION SUBMITTED BY GOVERNMENTS: DATES OF OPENING OF THE PROCEDURE OF EXAMINATION.**

*(Note by the Secretariat, November 1935.)*

This publication does not include the ephemeral documents of the National Defence Expenditure Commission, the purpose of which was to inform delegations of the tabling of the documentation submitted by the various Governments and of the dates on which the Technical Committee inaugurated the procedure of examining those documents that were considered in 1932 and 1933.

Appended is a list of these documents, showing the countries to which they refer and their dates.

As regards the tabling and examination of the documentation of countries not included in the following list, certain particulars will be found in the Memorandum of February 14th, 1934, on the procedure followed by the Committee in examining the documentation of various States. This document appears on pages 31 to 33 of Volume III of the Technical Committee’s report.

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<th>Countries whose documentation has been examined by the Technical Committee</th>
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