

APPENDIX 1.

EXTRACTS FROM PREVIOUS REPORTS OF THE COMMITTEE OF EXPERTS ON BUDGETARY QUESTIONS (Documents C.P.D.40 and C.P.D.90).

a.

CONTENTS OF HEAD OF EXPENDITURE.

The Committee made a very full analytical study of all the items of expenditure included in its first trial model return.

Complete details of this study cannot be given in the present report. It will suffice to set down the essential conclusions, in order to present a general picture of the final model statement.

1. *Personnel.*

In the case of personnel expenditure, the Committee found that only two main groups could be maintained:

(a) Pay, showing separately for personnel normally forming part of military formations, services and establishments the expenditure on the pay of officers, other ranks and civilian personnel. As regards the pay of personnel not normally forming part of military formations, services and establishments, the Committee decided that all such expenditure must be grouped under a single subhead.

It was thought desirable, however, to ask Governments to show separately, if possible, in an appendix, the total remunerations outside periods of training of personnel not employed, and the total remuneration during periods of training of reservists called up.

(b) Maintenance of effectives. Taking the budget as a whole, this expenditure cannot be technically distinguished according as it is occasioned by the needs of the personnel with the colours, or by the formation of reserves of supplies and stores. Nor is it possible to ask all Governments to distinguish expenditure on the maintenance of the personnel with the colours from expenditure occasioned by the calling up of reservists.

Further, the Committee felt that there was no particular advantage in showing separate expenditure figures for each of the services employed in satisfying the personal needs of the effectives; all expenditure of this kind will therefore be combined in a single figure.

Lastly, in order to simplify the model statement, the Committee of Experts decided not to ask for particulars of budgetary effectives in the actual return. It thought, however, that Governments should be asked to give, as an annex to the return, particulars of the total effectives on the lines followed in the *lois de finances* (fixing annually the maximum establishment to be maintained) or in the actual budgets (budgetary effectives).

2. *Transport.*

The Committee decided to group all expenditure of this class under a single subhead.

As an exception, for the return for land forces only, it was found necessary to have a separate subhead for expenditure on the purchase of horses and other animals, harness, shoeing, veterinary charges and forage.

3. *Buildings.*

Expenditure of this class will be grouped into a single figure, except that, in the case of land and naval forces, expenditure on the construction of new fortifications and defence works will be shown separately.

4. *Warlike Stores.*

Owing to the variety of the methods of acquiring stores in different countries, the Committee had to give up the idea of classifying the expenditure according to the nature of the stores.

In the case of *land forces*, it was decided to ask for separate figures of expenditure on arms and ammunition and expenditure on engineer and other stores.

In the case of *naval forces*, the Committee decided to adopt in substance the following grouping:

(a) *Maintenance of the fleet and new construction.* — On this point, in view of the desirability of obtaining separate figures for the cost of new construction, the Committee decided to ask for particulars showing as accurately as possible the amount spent on that object. As a general rule,

this expenditure can only be calculated on the basis of cost accounts, the figures of which cannot be mixed up with the budget figures in the return. The table therefore shows only one figure for all construction and maintenance, but the particulars of new construction will be given in a note.

(b) *Arms and ammunition.* — For *air forces*, the Committee realised that, owing to the structure of certain budgets, only a single figure for expenditure on air force material could be asked for. The particular structure referred to is due to the fact that air force material wears very rapidly and has to be constantly renewed.

The Committee had thought of showing separately expenditure in connection with the inspection of stores and with research institutions; but it gave up this idea on finding that these costs of experiments are often combined with provision for manufacture, and that it would therefore be dangerous to have a separate subhead for expenditure on experiments and research, because such a subhead could not in any case represent the true expenditure for this purpose. It will, of course, be difficult, if any such expenditure is shown as a separate item, to distribute it over the articles purchased or manufactured, but even a somewhat arbitrary distribution is better than a special subhead, the existence of which would involve real dangers of misinterpretation.

5. *General Conspectus of the Heads in the Return.*

The Committee made the utmost efforts to give each of the main heads of expenditure a definitely individual character. Unfortunately, in some cases circumstances made it necessary to place under certain of these heads expenditure which did not share their essential characteristics. For example, the Committee originally intended to show all expenditure on non-specialised vehicles under the head of Transport and to put only expenditure on specialised vehicles under the head of Stores. In view, however, of the impossibility of isolating in the budgets the expenditure on these two classes of vehicle, the Committee was obliged to transfer all expenditure on horse or motor vehicles, for whatever purpose intended, to the heads covering warlike stores. Thus the head for warlike stores will include expenditure on the purchase, manufacture and upkeep of material all of which does not, strictly speaking, constitute warlike stores.

b.

PENSIONS.

At the first session the question whether service pensions were to be completely excluded from national defence expenditure was held over for further consideration.

Although pensions form an attraction in recruiting men, and can, as such, be regarded as national defence expenditure, the Committee of Experts found that, owing to the complexity of the various pension systems and the variety of methods employed in administering them, it was impossible, not merely to separate service pensions from other pensions in certain budgets, but also, *a fortiori*, to find a standard of discrimination applicable to all budgets. For these reasons the Committee definitely decided to omit pensions from the list of items of national defence expenditure.

c.

GROSS AND NET ACCOUNTANCY.

In countries that follow the principle of gross accountancy, the Committee found that to a varying extent the Departments nevertheless used some of their receipts (in addition to their budget credits) to meet certain expenditure.

In these cases, the Committee thinks that the expenditure met out of these receipts should, as far as possible, be added to the expenditure authorised in the ordinary way. In countries that follow the principle of net accountancy, the return should show the expenditure met out of the receipts received by the Departments.

There is a special section of the Instructions which deals with gross and net accountancy, and states the Committee's view that in computing the figures to be given in the return the gross expenditure should as a general rule be reconstituted by including all the receipts utilised by the Ministries responsible for national defence. The Committee realises, however, that in certain cases this procedure may produce duplication of items, and in such cases it has provided for the deduction of the corresponding receipts.

There are, of course, serious objections to the strict application of the principle of gross accountancy, because certain items of revenue ought to be deducted, such as the proceeds of sale of scrap or waste products, which should not logically be included in the cost of manufacture.

This also applies to receipts from sales, by the Departments concerned with national defence, to the civil Departments or to private persons.

In attempting to follow out this logical conception, however, we meet with practical difficulties of discrimination, due to the method of accounting for revenues of different kinds arising in different Departments.

There is also a certain danger in following this logical method, because the arbitrary deduction of receipts cannot be allowed, and it would be extremely difficult to formulate rules that would effectually define the scope of this deduction.

It was decided, however, that, in the case of sales for other purposes than those of national defence, the total receipts might be shown in a note.

d.

BLOCK VOTES FOR SEVERAL YEARS.

Where block votes that may be used over a period of several years are made once and for all in the budget of one year, the Committee thinks that the total of such votes should be shown in the return for the year in which they were made, but that in order to show how they are employed year by year each country should forward, together with the return of actual expenditure, a return of the total votes or other resources not expended, irrespective of their origin, so far as they are still at the Government's disposal for purposes of national defence after the close of the last financial year but one.

Another solution that was considered consisted in asking each country to show in each of the returns of estimated expenditure what part of these block votes would be used during the year dealt with. The solution which the Committee decided upon, however, seemed better to allow for the eventuality of these block votes remaining available indefinitely and, indeed, constituting a kind of reserve fund.

e.

METHOD OF ACCOUNTING FOR STOCKS.

In the programme of work for the Committee of Experts, there appears the item "The method of accounting for stocks". Elsewhere in the Joint Commission's report the real nature of the question is, however, accurately defined: the Committee of Experts is to consider "the difficult question whether it will prove practicable to ask for statements of stocks remaining from previous years, and of the extent to which they are drawn upon".

The Committee of Experts has considered this matter. After making a comparative study of laws and regulations, it found that the practice followed in this connection varies considerably in different countries.

Some countries keep no accounts of stocks expressed in terms of value, but only accounts of quantities, and, consequently, have no general accounts of their *matériel*. Other States have accounts expressed in terms of value for certain classes of stocks, that is to say, for those which are not warlike in character, but have no accounts, in terms of value, for warlike stores.

Some States keep accounts showing the value of all *matériel*, of whatever kind, and such accounts are summarised in general accounts, which are submitted either for verification or judgment to an audit authority.

In cases where full accounts are kept in terms of value, such accounts can only be compiled by assigning conventional prices to all, or to most, of the articles concerned. Considerable labour and expenditure would no doubt be involved in attempting to bring such prices into line with current cost prices.

This, incidentally, is the real reason why accounts, in terms of value, have recently been abandoned in certain countries, for all or for certain *matériel*.

If certain States consider that this system of accounts in terms of value is of great use for purposes of internal accountancy, it does not, at the present time, and especially during the period of economic and monetary instability through which the world is passing, appear capable of supplying a true index of the "cost-of-production" value.

It would therefore seem impossible, at the present moment, to make any use in the international field of the systems of store accounting which are in use in certain countries. It can only be hoped that in the future, when stability has been re-established, technical improvements in store accounting will enable such systems to be generally introduced, and used to measure the trend of armaments.

To sum up, the Committee of Experts feels that, for these reasons, it would not be possible at present for *all* States attending the Disarmament Conference to supply store accounts and that the store accounts kept by some of them could only lead to erroneous conclusions.

f.

KEY ITEMS.¹

I. By "key items" may be understood single items of expenditure having the following characteristics:

1. They must be directly ascertainable from the published and audited accounts of each Power.

¹ This question was expressly submitted to the Committee of Experts by the Joint Commission.

2. They must be characteristic of either: (a) the whole, or (b) certain specific elements, of the armament of each nation (in the sense that they rise with any increase of that armament or of the specific elements in question).

3. They must be such that they rise *immediately* on an increase of armament, *e.g.*, that the rise in the item of expenditure cannot be postponed until the armament is actually mobilised, nor spread over a long period of years.

4. They must be such that the rise following on an appreciable increase of armament is itself substantial, and capable of being distinguished from any probable rise due to other temporary or secular causes.

II. Characteristic 3 immediately eliminates all items of expenditure on stocks of finished or nearly finished articles entering into ordinary commerce, since many or all States can meet their requirements of these articles, partially or wholly, by requisitioning stocks on the outbreak of war. Such articles are: foodstuffs, fuel, boots, some articles of clothing, motor vehicles, etc. To some extent also explosives fall under this heading.

III. Cost of construction of buildings other than fortifications might be regarded as a key item, but, for purely internal and financial reasons, the cost of a new programme of buildings is frequently spread over a long period. Requirements can, moreover, be met to some extent by the requisitioning of buildings after the declaration of war.

IV. Characteristic 1, speaking generally, eliminates expenditure on raw material, for, even if the Powers were prepared to open a new subhead in respect of some particular material chosen as a key item, it would not be possible to include under that subhead all the expenditure in connection with that material, which is purchased not only in the form of raw material but also as a component of finished products. The Committee has no knowledge of any product which is an exception to this rule.

It should be remembered that no State which desires to increase its fighting power will adopt the costly method of purchasing and storing reserves of goods beyond a certain point if there should be any means of providing for future contingencies without seriously increasing present expenditure.

If a State intends to build up reserves of raw material in which it is naturally deficient and which are of vital necessity to it in time of war, it can obviously obtain them by means of budget credits openly devoted either to direct purchase or to subsidies to manufacturers. In actual fact, however, such reserves of raw materials would in that case for preference be built up by other less costly and more efficient means, which a State would be left to adopt in perfect good faith and without any idea of camouflage. The operation of Customs tariffs, the grant of concessions, special methods of administering the laws on fiscal, labour and commercial matters, afford States countless opportunities for building up reserves of raw materials in such a manner as to leave no trace in their budgetary expenditure.

V. As regards *matériel* of a specially warlike character, there are certain elements which can perhaps be better characterised by methods already suggested, *e.g.*:

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| Warships | — by class and number, or by tonnage and armament; |
| Aeroplanes | — by horse-power; |
| Airships | — by volume or horse-power; |
- etc.

This reduces the choice of key items to a large and miscellaneous class of warlike stores, such as small arms, guns, ammunition, torpedoes, etc., and to certain specific stores not being warlike stores properly so called, such as uniforms, etc.

VI. After careful consideration, the Committee is of opinion that no item can be found (not excepting even uniforms, which seem most nearly to approach the ideal) which possesses the above-mentioned characteristics in a sufficiently marked degree to constitute a true key item, and that the limitation of key items could not therefore prove as effective as the limitation of complete categories of expenditure.

It should be added that, if any key item were to be selected, this would involve asking many countries to open a new subhead to record the expenditure thereon. Such a request could not be made without strong reasons, and the Committee is of opinion that no such reasons can be adduced.

APPENDIX 2.

TEXT OF ARTICLES OF THE DRAFT CONVENTION CONCERNING
LIMITATION AND PUBLICITY OF EXPENDITURE.

LAND ARMAMENTS. ¹

Article 10. ²

(Provisional text subject to the drafting of the Annex.)

The annual expenditure of each High Contracting Party on the upkeep, purchase and manufacture of war material for land armaments shall be limited to the figures laid down for such Party, and in accordance with the conditions prescribed, in the annex . . . to this Article.

NAVAL ARMAMENTS.

Article 24. ^{3 4}

(Provisional text subject to the drafting of the Annex.)

The annual expenditure of each High Contracting Party on the upkeep, purchase and manufacture of war material for naval armaments shall be limited to the figures laid down for such Party, and in accordance with the conditions prescribed, in Annex . . .

BUDGETARY EXPENDITURE. ⁵

Article 29. ⁶

(Provisional text subject to the drafting of the Annex.)

The total annual expenditure of each of the High Contracting Parties on his land, sea and air forces and formations organised on a military basis shall be limited to the figure laid down for such Party and in accordance with the conditions prescribed in the Annex . . .

EXCHANGE OF INFORMATION.

Article 33. ^{7 8}

Each of the High Contracting Parties shall, within . . . months from the end of each budgetary year, communicate to the Secretary-General of the League of Nations a statement drawn up in accordance with a standard model, showing by categories of materials the total actual expenditure in the course of the said year on the upkeep, purchase and manufacture of materials of the land and sea armed forces and formations organised on a military basis of such Party.

¹ See reservation by the **American Delegation**, paragraph No. 94 of the report.
German „ „ paragraphs Nos. 102 and 103 „
Turkish „ „ paragraph No. 99 „

² Note. — In pronouncing on this article, the Governments will take into account at the Conference the report requested from the Committee of Budgetary Experts, which will have been forwarded to them in order to permit of the drawing up of the annex to this article.

The Preparatory Commission, by sixteen votes to three and six abstentions, adopted the principle of limitation by expenditure. It also discussed the following resolution:

“ The Preparatory Commission is of opinion that the principle of direct limitation should be applied to land war material.”

When this resolution was put to the vote, there were nine votes in favour, nine against and seven abstentions.

Lastly, it examined the principle of a combination of the two methods. Nine members of the Commission voted in favour of this principle; eleven voted against and five abstained.

³ In pronouncing on this article, the Governments will take into account at the Conference the report requested from the Committee of Budgetary Experts, which will have been forwarded to them in order to permit of the drawing up of the annex to this article.

⁴ See reservation by the **French Delegation**, paragraph No. 139 of the report.

Japanese „ „ No. 140 „
German „ „ No. 141 „
British and Italian Delegations, paragraph No. 142 of the report.

⁵ See reservation by the **German Delegation**, paragraph No. 182 of the report
American „ „ No. 181 „

⁶ In pronouncing on this article, and in particularly as regards the possibility of a distinct limitation of the expenditure on land, sea and air forces, the Governments will take into account at the Conference the report requested from the Committee of Budgetary Experts, which will have been forwarded to them in order to permit of the drawing up of Annex . . .

⁷ See reservation by the **German Delegation**, paragraph No. 201 of the report.

⁸ In giving an opinion on this article, the Governments will take into account the report requested from the Committee of Budgetary Experts regarding the number and nature of the categories to be laid down and the methods of publicity thus adopted in connection with the provisions of the annex regarding limitation referred to in Article 10 of the present Convention.

The information contained in this statement shall be published by the Secretary-General not later than . . . in each year.

*Article 38.*¹

Each of the High Contracting Parties shall communicate to the Secretary-General of the League of Nations within . . . months of the end of each budgetary year a statement drawn up in accordance with the standard model annexed to this Article showing the total amounts actually expended in the course of the said year on the land, sea and air armaments of such Party.

The information supplied in this statement shall be published by the Secretary-General not later than . . . in each year.

¹ See reservation by the **German Delegation**, paragraph No. 215 of the report.
