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VOLUME 4

MINUTES

OF THE

NATIONAL DEFENCE EXPENDITURE COMMISSION

February 27th, 1932 - June 3rd, 1933

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The National Defence Expenditure Commission was set up by the General Commission of the Conference for the Reduction and Limitation of Armaments on February 25th, 1932.

At its seventeenth plenary meeting on February 24th, 1932, the Conference had adopted the following resolution :

" The Conference,

" Approving the proposals of the Bureau on the action to be taken in regard to the plans and proposals which have been placed before it :

" 1. Decides to transmit to the General Commission these plans and proposals, as well as the draft Convention (with annexes) prepared by the Preparatory Commission, which may serve as a framework for the work of the Conference ;

" 2. Requests the General Commission to proceed to a preliminary study of and to co-ordinate the said plans and proposals and the draft Convention ;

" 3. Decides that, without prejudice to the Rules of Procedure, [1] the General Commission shall be authorised to constitute, as and when the need arises, such commissions, sub-commissions or committees as it may consider desirable, and, in particular, the Land, Naval, Air and National Defence Expenditure Commissions.

" Such commissions, sub-commissions or committees will report to the General Commission on the matters which it refers to them."

The National Defence Expenditure Commission sat from February 25th, 1932, to June 3rd, 1933. Its officers were as follows :

Chairman :	M. A. DE VASCONCELLOS (Portugal) ;
Vice-Chairmen :	M. J. VALDÉS-MENDEVILLE (Chile), M. S. RADULESCO (Roumania) ;
Rapporteur :	M. J. P. A. FRANÇOIS (Netherlands) ;
Co-Rapporteur :	M. R. JACOMET (France), appointed on May 23rd, 1933 ;
Secretary :	M. Finn T. B. FRIIS, Member of the Disarmament Section of the Secretariat of the League of Nations ;
Technical Adviser :	Dr. A. VON SUCHAN, Member of the Financial Section and Economic Intelligence Service of the Secretariat of the League of Nations.

As soon as it met, the Commission set up a Technical Committee under the Chairmanship of M. RADULESCO (Roumania), with Mr. LYON (United Kingdom) as Vice-Chairman, later replaced by M. DE MODZELEWSKI (Poland). Its General Rapporteur was M. JACOMET (France).

The present volume contains the Minutes of the Expenditure Commission and, as annexes, the documents necessary for the consultation of these Minutes, with the exception of the Technical Committee's report, which forms three volumes printed separately under No. Conf.D.158.

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[1] Part V of the Rules of Procedure reads as follows :

" V. COMMISSIONS.

" 1. The Conference shall have the right, according to the exigencies of the business on hand and convenience of work, to set up commissions on which all delegations may be represented by a delegate, who may be assisted by advisers, experts and secretaries. Committees may also be set up consisting of delegates of a limited number of countries.

" 2. Each commission shall appoint its Chairman and its Vice-Chairman or its Vice-Chairmen and shall, at the appropriate time, appoint one or more Rapporteurs.

" 3. The commissions may themselves set up sub-commissions."

S. d. N. 1510 (F.) 1145 (A.) 12/35. Imp. du J. de G.

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DOCUMENTS OF THE NATIONAL DEFENCE EXPENDITURE COMMISSION.

CORRIGENDUM.

Certain errors having crept into the text of the Minutes, the reader is requested to note the corrections hereunder :

Page 1. *Fourth line from foot of page.* After the word " agenda " insert " [1] ".
Footnote to be added as follows : " [1] See Documents of the National Defence Expenditure Commission, page 91 of this volume ".

Page 8. *Chapter* 5. Read title as follows : " Appointment of a Technical Committee ".

Page 42. *Penultimate paragraph, line* 7. Instead of " limitation of the special heads ", read : " separate limitation of the expenditure of each of the three arms ".

Page 87. *Last paragraph, line* 4. After the word " resolution " insert " [1] ".
Footnote to be added as follows : " [1] Document Conf.D./C.D.46 ".

FIRST MEETING

Held on Saturday, February 27th, 1932, at 12 Noon.

The Right Honourable A. HENDERSON in the Chair.

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1. Election of President.

The Chairman said that the National Defence Expenditure Commission had met, in pursuance to the decision taken by the Bureau of the Conference on the previous day, to proceed, in accordance with Article 5, paragraph 2, of the Rules of Procedure, to elect a President, Vice-Presidents, and Rapporteurs. The Commission would therefore be invited to elect, first, a President by secret ballot, in conformity with the Rules of Procedure, Article 13, unless the Commission decided otherwise. One or more Vice-Presidents and Rapporteurs would then be appointed in the same way.

M. Raphael (Greece) proposed that the Commission should elect only its President at the present meeting and that the appointment of Vice-Presidents and Rapporteurs should be postponed until it was known who the members of the Commission were to be.

Agreed.

M. de Vasconcellos (Portugal) *was elected President by acclamation.*

SECOND MEETING

Held on March 10th, 1932, at 10.30 a.m.

M. DUFOUR-FERONCE in the Chair and, later, M. VALDÉS-MENDEVILLE.

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2. Election of the Vice-Presidents and the Rapporteur.

M. Dufour-Feronce (Under Secretary-General, representative of the Secretary-General of the Conference) announced that M. de Vasconcellos, President of the Commission, was unwell, and had requested him to open the meeting.

The first point on the Commission's agenda was the election of one or more Vice-Presidents and Rapporteurs.

M. Valdés-Mendeville (Chile) and M. Radulesco (Roumania) *were elected by acclamation Vice-Presidents of the Commission.*

M. Valdés-Mendeville *then took the Chair.*

M. François (Netherlands) *was appointed Rapporteur to the Commission.*

3. Programme of the Commission's Work.

The President proposed that the Commission should deal with the third point on its agenda—namely, the establishment of a programme of work. He reminded the Commission of certain general principles adopted by the General Commission on the proposal of M. Beneš—viz., (1) the General Commission deals with all questions of principle; (2) the questions thus examined by the General Commission are referred to special commissions; (3) questions which

do not require to be first discussed in principle are referred direct to the special commissions ; (4) the special commissions report to the General Commission ; they may also submit to the latter any questions of principle which might arise during their discussion and which would necessitate a decision by the General Commission. Acting on these principles, the General Commission had already referred to the Commission a number of questions specified in the last chapter of document Conf.D.103. Naturally, this list was not binding in respect of the order of the work, and the Committee was free to adopt the method which it considered the most suitable and, consequently, to fix its own agenda.

The President wished to draw the Commission's attention to certain questions which arose in this connection. All the articles of the draft Convention which referred to the publicity of budgetary expenditure and, in particular, Articles 33 and 38, which were dealt with in part of the report by the Committee of Experts on Budgetary Questions, had been referred to the Commission. As regards the limitation of armaments by budgetary means, the principle of that limitation had been reserved by the General Commission. On the other hand, the latter had referred to the National Defence Expenditure Commission certain proposals relating to the method of applying the principle of limitation. The General Commission had not made any recommendation regarding Article 10 of the draft Convention, which referred to the budgetary limitation of land material. As this problem raised a question of principle as to the application of the direct or indirect method of limitation, the discussion must be reserved for the General Commission. Similarly, questions relating to Article 24 which provided for the limitation of expenditure on naval material would have to be examined by the Naval Commission. The report by the Committee of Experts on Budgetary Questions dealt, in general, with the method of applying the articles of the draft Convention together with questions connected therewith. In these circumstances, it would be difficult to deal separately with certain questions which required special examination. Moreover, the report by the Committee of Experts had not yet been discussed by any of the organs of the Disarmament Conference. It had not even been examined by the Preparatory Commission, but had been forwarded direct to the Governments.

M. DE MODZELEWSKI (Poland) thought that, as the General Commission had reserved the examination of certain questions of a general and even of a political character, there was no other course than to bow to this decision. As regards the list of questions referred to the Commission, he observed that Items 1, 2 and 3 were taken from the draft Convention, while Item 4 was taken from the experts' report and embodied Items 1, 2 and 3. If the Commission followed this order, its work would be duplicated. It would have the ungrateful task of considering the same questions, in the first place, without regard to the report by the Committee of Experts on Budgetary Questions, and, secondly, of taking that report as a basis. It would be more logical to begin by discussing Item 4 within the framework of the experts' report, which was a document of admirable clearness and precision. If, in its examination of the questions contained in the report, the Commission encountered points with which it was not competent to deal, it would omit them and would restrict its work to questions with which it was directly concerned. M. de Modzelewski thought this was the most practical solution, and he made a formal proposal to the Commission to begin by discussing the experts' report item by item, while reserving the right to raise any other questions with which the experts had not dealt.

Colonel KARMANN (Germany) was glad to be able to agree in substance to M. de Modzelewski's proposal. He agreed with him that the report by the Committee of Experts was a work of exceptional value. The German delegation could subscribe to the whole of some chapters of the report. But certain other chapters had become quite out of date, not through any fault of the experts, but on account of changes which had taken place in the monetary situation of various countries. Certain questions which had been studied by the experts would have to be dealt with afresh by the Commission. Moreover, the work of the experts in respect of the principle of limitation presupposed the adoption of the indirect method of limitation. This was, at any rate, the impression gained by reading the report as a whole. It was clear that the Commission could not at present engage in a discussion on limitation of budgetary expenditure as provided for in Articles 10 and 29. On the other hand, the question of the publicity of expenditure as proposed in Report No. III of Sub-Commission B of the Preparatory Commission (document C.P.D.40) and the report of the Committee of Budgetary Experts (document C.P.D.90) and the last report by the Committee of Experts might usefully form the subject of immediate discussion.

Colonel Karmann therefore proposed to begin by discussing the publicity of budgetary expenditure and, in particular, the questions raised by Article 38 of the draft Convention.

M. GIGNOUX (France) supported M. de Modzelewski's proposal regarding the immediate examination of the experts' report. It was clear that the questions referred to in Items 1, 2 and 3 in the list submitted to the Commission were included in Item 4, which was of a more general nature, and that it was difficult to begin a separate examination of questions which would have to be subsequently examined as a whole. The question of publicity was

connected with that of limitation and should therefore be examined together with that question in the general framework of the experts' report. While fluctuations in the purchasing power of currencies raised problems of great importance, those questions were nevertheless secondary, since they did not seem likely to involve the actual principle of limitation.

M. MUSHAKOJI (Japan) supported M. de Modzelewski's proposal. He pointed out, however, that certain questions had not been sufficiently discussed by the experts. He therefore proposed that any questions which might arise during the examination of the various points studied by the experts should be inserted in the Commission's agenda.

Mr. GRIEVE (United Kingdom), while supporting the Polish delegate's proposal to base the discussion on the report by the Committee of Experts, pointed out that this report dealt with highly technical subjects and was concerned with the book-keeping aspect of the questions. The experts had based their report on the principle of budgetary limitation, although that principle had not yet been adopted.

He thought two crucial points arose for consideration. The first was that referred to in document Conf.D.103, Item I (*a*) of the last chapter—namely, the study of the budgetary method in consideration of fluctuations in purchasing power. This subject had a vital effect on the entire question, and it would have to be considered by a committee of economists.

In the second place, it was difficult to find a common monetary denominator. The position had changed since this question had been discussed by the budgetary experts. If they had to draw up a report in present circumstances, they might have made reservations on this subject.

For publicity to have any real meaning, it must be capable of expression in a common monetary denominator. This was impossible when currencies and the purchasing power of gold were constantly changing. He therefore thought that the questions should be discussed by the appropriate committees before the National Defence Expenditure Commission came to discuss the method. To deal with the report of the budgetary experts as if nothing had happened since it was written could not but lead to an unsatisfactory result.

M. LANGE (Norway) said he was prepared for the question raised by the United Kingdom delegate, but did not think this question should hinder the Commission in its work. The Committee of Experts' report formed the most suitable basis for the discussions of the Commission. The body of the report contained a special chapter on fluctuations in the purchasing power of money. When the General Commission came to deal with the question of principle as to the advisability of inserting in the Convention a chapter on the limitation of budgetary expenditure, it would need the opinion of the present Commission, which had all the necessary expert advice at its disposal for expressing such an opinion. It would therefore be premature to abandon the discussion at the present moment. Moreover, the delegate of the United Kingdom had placed the question on a level which did not appear to be suitable. It would seem that the principle of limiting expenditure was already admitted as a means of comparing the cost of armaments in a given country with the cost in previous years and not as a means of comparing the expenditure in different countries. In comparing two successive years in the budget of the same State, fluctuations in exchange did not play the same part as in international affairs. It was true that fluctuations in the purchasing power of money gave rise to certain difficulties, but difficulties were there to be overcome. It would be a confession of weakness to state at the present moment that there were no means of limiting expenditure.

M. DE MODZELEWSKI (Poland) did not deny the justice of the remarks made by the delegate of the United Kingdom. He even thought that the example given by that delegate was not the most convincing one and that many other examples could be cited. It was, nevertheless, more practical to deal successively with the questions contained in the report by the Committee of Experts and to refer to a smaller committee any special questions which might arise during this examination.

Colonel KARMANN (Germany) entirely shared the opinion expressed by the delegate of the United Kingdom. In his opinion, the purchasing power of money was not a secondary question, but constituted the sole problem. While agreeing with the Norwegian delegate that the Commission must reach a decision on this point, he nevertheless thought that the question of purchasing power should form the subject of a special study to be entrusted to a smaller committee.

M. GIGNOUX (France) was struck by the Norwegian delegate's remarks regarding a passage in the experts' report dealing with fluctuations in the purchasing power of money. He thought the two points of view could easily be reconciled. It would be sufficient to admit the necessity for a special study of the question of purchasing power within the framework of the experts' report.

M. SANDLER (Sweden) agreed with the Norwegian delegate. The Swedish delegation had already proposed that the budgetary questions should be studied from the point of view of purchasing power. This was not a question of principle but of a desire to find the most suitable methods of application.

The PRESIDENT, in summarising the discussion, noted M. de Modzelewski's proposal that the Commission should take the report by the Committee of Experts as a framework for its discussion on the understanding that, as and when questions arose which had been reserved by the General Commission, they should be omitted. Other delegates had emphasised the special importance of certain questions and had formulated reservations on the subject. There had, however, been no objection in principle to taking the report by the Committee of Experts as a basis of the discussion. In order to give more concrete form to the Polish delegate's proposal, the President suggested that the Commission should leave it to the Bureau to draw up a definite proposal regarding the programme of work, while taking into consideration the valuable exchange of views which had just taken place.

M. DE MODZELEWSKI (Poland) accepted the President's suggestion. He would like, however, to express it more definitely. He therefore proposed that the Bureau should undertake to prepare an agenda after taking into consideration the discussions which had taken place, and accepting the report by the Committee of Experts as a basis for the work.

Sir Thomas WILFORD (New Zealand) pointed out that no one had replied to the delegate of the United Kingdom's remarks about fluctuations in monetary values. Until a common monetary denominator was obtained, there could be no basis for discussion.

The PRESIDENT replied that the work of the Commission was still only in the stage of procedure. A definite proposal had been made to the Commission by M. de Modzelewski. Some speakers had made suggestions which the Bureau would use for drawing up a draft agenda in accordance with M. de Modzelewski's proposal, to take the report by the budgetary experts as a basis.

M. LOUNATCHARSKI (Union of Soviet Socialist Republics) thought it would be more prudent to state that the discussion would take place within the framework of the report by the budgetary experts rather than to say definitely that that report would serve as a basis for the discussion. This would be in accordance with the precedent created by the General Commission with regard to the draft Convention.

The PRESIDENT pointed out that M. Lounatcharski's proposal coincided with the summary which he had given at the outset of the Polish delegate's proposal.

M. DE MODZELEWSKI (Poland) accepted M. Lounatcharski's proposal.

Dr. Mary WOOLLEY (United States of America) thought that, as a matter of procedure, they should adopt the principle—which was of such great importance for all their work—of budgetary limitation, and that they should then consult experts as to any question of currency fluctuation which might arise.

The PRESIDENT replied that the discussion referred to the agenda and that the Commission was considering a proposal to request the Bureau to draw up an agenda which would take account of the important suggestions made, in particular, by the delegate of the United Kingdom, while adopting the report by the Committee of Experts on Budgetary Questions as a framework for the discussion.

Agreed.

THIRD MEETING

Held on Monday, March 14th, 1932, at 3.30 p.m.

President: M. VALDÉS-MENDEVILLE.

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4. EXAMINATION OF THE PROGRAMME OF WORK DRAWN UP BY THE BUREAU (document Conf. D./C.D.2).

The PRESIDENT read the proposals of the Bureau regarding the Commission's programme of work.

M. DE MODZELEWSKI (Poland), while paying a tribute to the work accomplished by the Bureau, which had taken into consideration all the remarks made at the previous meeting,

wished to make two suggestions regarding the programme proposed to the Commission. His first suggestion aimed at supplementing this programme to some extent, and he proposed to bring it before the Commission when the latter discussed point (*b*) of the agenda—that was to say, when it examined the proposal to appoint a sub-committee of experts. The second suggestion referred to the order of the subjects laid down in the programme. Among the preliminary questions inserted in part (*a*) of the programme, the Bureau had included the impossibility of comparing the strength of armaments of various countries on the basis of the figures of expenditure. The Polish delegate appreciated the motives which had led the Bureau to insert this question at the beginning of the programme. This had been done to clear the ground for the discussion of other questions by the acceptance of a principle which had already been adopted by the Committee of Experts and Commission B of the Preparatory Commission. Nevertheless, in spite of the advantage of this method and of the confidence which could be placed in the Committee of Experts, the Commission could not blindly accept this principle. Moreover, this question was closely connected with other points which formed its premises. It was not without good reason that the Committee of Experts had only dealt with this problem in Chapter 24—that is to say, at the end of its report. The Committee of Experts had reached its conclusion as a result of the synthesis of numerous other questions, particularly those dealt with in Chapters 4, 8 and 19 of the report. The Commission could not investigate this problem without previously examining the premises, which consisted not only of the questions dealt with in the above chapters of the report but also of the question of recruiting and other technical problems which had possibly not been taken into consideration by the Committee of Experts. For these reasons, M. de Modzelewski proposed to exclude this question from the section devoted to preliminary questions, and to insert it at the end of Chapter D.

The PRESIDENT explained that the Bureau had thought fit to insert this point among the preliminary questions to be discussed by the Commission, partly for the reasons connected with the previous history of the subject, to which M. de Modzelewski had alluded. Before the Committee of Experts had sat, Sub-Commission B had, indeed, reached the conclusion that the cumulative effect of the differences in the various elements of national defence expenditure made it impossible to compare the strength of these countries on the basis of expenditure figures. In inserting this point at the beginning of the programme of work, the Bureau had desired to obviate any misunderstanding on this subject during the later discussion. Nevertheless, if M. Modzelewski's proposal was accepted, he had no objection to the question being placed at the end of the Commission's work.

M. LANGE (Norway) requested M. de Modzelewski not to press his proposal. If the question of the possibility of comparing the forces of various States on the basis of expenditure figures were admitted, even in theory, this would hamper the discussion. Personally, he had been convinced, both by the discussion in the Preparatory Commission and M. de Brouckère's speech and by reading the report of the Committee of Experts, that it would be useless to look to the expenditure on national defence for an element of comparison of the military preparation of various countries. If this question were not settled at the outset, there was a danger that, in the subsequent work of the Commission, the idea of a possible comparison between the budget totals of the various countries would constantly arise. He therefore shared the view by which the Bureau had been guided. Until any fresh factors arose to throw light on the subject, the Commission would be wise to base its work on the principle of the impossibility of comparing the figures of national defence expenditure in different countries. The object of examining these figures, moreover, was not to compare the military expenditure of different countries, but to have a possibility of controlling the increase or decrease of the military preparations in the same country in different years. Possibly, during the discussion fresh information would be available of a nature to change the Commission's opinion. The Commission would be only too glad to receive such information. In the meantime, it was simpler from the point of view of the progress of the discussion to lay down as a working principle that it was impossible to make comparisons.

M. DE MODZELEWSKI (Poland) regretted that he could not agree with the Norwegian delegate's explanations. He would have had no difficulty in accepting them if the Commission had been the General Commission and if it were a question of principle. In that case, in order to facilitate the work, it might have been advisable to raise the principle in question from the outset. The question was, however, not before the General Commission, but before a special commission. It was not a question of principle, but a technical question which had to be solved on the basis of figures. In making these remarks, he did not wish in any way to anticipate the attitude of the Polish delegation regarding Chapter 24 of the experts' report. Perhaps his delegation, would reach the same conclusion as M. Lange. Nevertheless, before discussing this question it was the Commission's duty to examine all its premises. It would obviously have been possible to facilitate the work by omitting this question from the outset on the ground that it had already been settled by the Committee of Experts. That would, however, be incompatible with the task assigned to the Commission—namely, to re-examine all the premises, even if that examination led to the same conclusion.

M. VENTZOFF (Union of Soviet Socialist Republics) wished to make some remarks on behalf of the Soviet delegation regarding the programme of the Commission's work on the basis of the general attitude adopted by his delegation towards the question of budgetary reductions. In the Preparatory Commission, the Soviet delegation had pointed out that the only effective means of reducing war material and effectives was the method of direct reduction. In its second draft Convention, the Soviet delegation had expressed itself definitely in favour of a method of reduction of military expenditure following upon the direct reduction of effectives and war material. The Soviet delegation could give its support only to a reduction of national defence expenditure which would take place simultaneously with an appreciable reduction in effectives and war material. With this reservation, and while maintaining this point of view, the Soviet delegation would take part in the practical work of the Commission on the basis of the programme drawn up by the Bureau. In M. Ventzoff's opinion, that work might help the General Commission to establish principles for the reduction of military expenditure.

In view of all these considerations, the Soviet delegation did not oppose the programme of work drawn up by the Bureau and the order in which these questions were to be examined by the Commission. As regards the Polish delegate's proposal, he shared M. Lange's opinion that it was preferable to leave the programme unchanged.

Viscount MUSHAKOJI (Japan) recognised in principle the justice of the Norwegian delegate's view, but the actual facts had to be taken into account. This was a question of the highest importance, which might lead to prolonged discussions. The Commission had, at the most, two or three meetings before the recess. It would be unable to complete the discussion on this point before adjourning. In these circumstances, it would be more practical to adopt the method proposed by M. de Modzelewski.

Colonel KARMANN (Germany) agreed with the Norwegian delegate's view. He thought Chapter 24 of the report by the Budgetary Experts was of the highest importance. Public opinion must be made to realise that it was impossible to compare budgetary expenditure. But, in view of the great importance of the question, he proposed that the discussion should both begin and end with the question of the comparison of budgetary expenditure.

The PRESIDENT noted that the Commission had before it a formal proposal by the Polish delegate. This proposal, which was supported by the Japanese delegate, was that point A2 of the programme of work drawn up by the Bureau should be omitted from the chapter on preliminary questions and placed at the end of Chapter D. Before requesting the Committee to vote on M. de Modzelewski's proposal, the President pointed out that Colonel Karmann had suggested an intermediate solution—namely, to discuss the question of the comparison of budgetary expenditure in various countries, in the first place, as a preliminary question at the beginning, and, in the second place, at the end of the Commission's work. If M. de Modzelewski accepted this proposal, the question would be settled.

M. DE MODZELEWSKI (Poland) said he agreed to the German delegate's proposal in order to enable a unanimous solution to be reached. He would, however, like it to be made clear that the principle of the impossibility of comparing budgetary expenditure was only accepted provisionally and would not even be discussed before the necessary premises had been thoroughly studied by the Commission.

M. LANGE (Norway) agreed with this view. He had never contemplated the acceptance of the principle in question otherwise than provisionally, with the object of avoiding useless discussions and not of precluding the possibility of subsequently reaching a different conclusion. He proposed to amend point A2 of the programme to read as follows :

> " Acceptance of the principle laid down by the Committee of Experts on Budgetary Questions that it is impossible to compare the strength of armaments of various countries on the basis of the figures of expenditure. "

The PRESIDENT understood M. Lange to propose that the Commission affirmed, as the basis of its work, the provisional acceptance of the impossibility of comparing budgetary expenditure in different countries.

Mr. BARNES (United Kingdom) supported the Bureau's proposal. The delegation of the United Kingdom could not admit that budgetary expenditure enabled a comparison to be made between the military strength of different countries. Previous Commissions had been agreed on this point. If the Polish delegate did not agree with this conclusion, the matter should be cleared up at once.

M. DE MODZELEWSKI (Poland) did not wish to doubt the principle itself. What he wished was that the entire question should be examined and discussed by the Commission. He accepted the German delegate's suggestion as explained by M. Lange.

The PRESIDENT asked whether the Commission agreed that, in accordance with the German delegate's proposal, which M. de Modzelewski had accepted, the question covered by point A2 of the programme of work should remain in its present position but should be inserted again at the end of Chapter D, so that it could be discussed again if this were called for by the examination of other points.

Mr. BARNES (United Kingdom) agreed on condition that it was provisionally understood that the Commission accepted the principle laid down in point A2 of the programme of work.

The Norwegian proposal was adopted.

The PRESIDENT noted that the programme of work was provisionally accepted, subject to the appointment of a technical sub-committee proposed by the Bureau. The reservations and observations made by the Soviet delegate would be inserted in the Minutes.

The programme of work as adopted by the Commission was worded as follows (see document Conf.D./C.D.14) :

"*A. Preliminary Questions.*

"1. Necessity for a uniform presentation of figures for national defence expenditure of the various countries (chapter 1, introduction).

"2. Acceptance of the principle laid down by the Committee of Experts on Budgetary Questions that it is impossible to compare the strength of armaments of various countries on the basis of the figures of expenditure.

"*B. Form and Contents of Model Statement.*

"1. Definition of the term 'annual expenditure'.

"(*a*) Definition of the term 'expenditure' (chapter 5)
"(*b*) 'Exercice' accounts (chapter 6(*b*))
"(*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).

"3. Classification of this expenditure.

"(*a*) The model statement (chapter 2).
"(*b*) Changes in the appropriation of funds (part of chapter 3).
"(*c*) Contents and classification of the sub-heads in the model statement (chapter 11).
"(*d*) Definitions in the draft annex not exhaustive (part of chapter 12).
"(*e*) Separation of expenditure for the three forces (chapter 13).
"(*f*) Tables A and B appended to the model statement (part of chapter 20).

"4. Concordance tables. Derogations (chapter 14 and chapter 4).

"*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 United Kingdom 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).

* * *

"*Second reading (if any) of point A2:* Acceptance of the principle laid down by the Committee of Experts on Budgetary Questions that it is impossible to compare the strength of armaments of various countries on the basis of the figures of expenditure."

5. Appointment of a Sub-Committee of Experts.

The President reminded the Commission of the reasons contained in the Annex to the programme of work drawn up by the Bureau (document Conf.D./C.D.2). He wished to add some remarks regarding the considerations by which the Bureau had been guided. The latter had wished to form an idea of the position of the information supplied up to the present and had requested the Secretariat to prepare a summary of the returns. He would merely give some examples of the information resulting from this work. Out of the sixty-two States invited to the Conference, forty-three had supplied information on their armaments expenditure. In most cases, the explanations and reconciliation tables requested in the report by the budgetary experts were still to be supplied. They were absolutely necessary in order to see what expenditure had been included in the returns and what methods had been adopted by the various States. The States had been requested to fill in the data on the basis of the last closed accounts, but it would appear that fourteen States had given the figures of their budget estimates and only twenty-nine States had indicated actual expenditure. Some of these States appeared to have given provisional results rather than the final accounts.

Of the thirty-seven States possessing land forces and naval or air forces, the returns of only twenty-one States showed the expenditure for each of these forces separately.

The expenditure for formations organised on a military basis had been included by sixteen States, eleven of which had shown them separately.

Twenty-six States had made a formally complete separation of their expenditure in accordance with the four heads of the Model Statement.

As regards the separation of Head IV (War Material) from the other heads of the same category of armaments (land, naval, air) and also as regards the separation of Head IV from the other categories, after taking into account the States which had no land armaments, there were nineteen States in which this separation was formally complete.

This last statement in no way prejudiced the question of the contents of Head IV in these nineteen States.

For these reasons, the Bureau had thought fit to propose the appointment of a sub-committee of technical experts. This sub-committee would have a dual task—namely, the examination, with the assistance of representatives of the Governments concerned, of information furnished by the latter and the study of highly technical questions which would be referred to it by the Commission. If the Commission approved this proposal, the Bureau would undertake to submit at the next meeting suggestions regarding the number of members of the sub-committee and the manner in which it would be composed.

General Barberis (Italy) emphasised the importance of the President's statement regarding the information supplied by the Governments.

M. de Modzelewski (Poland) thought it was impossible to do useful work without first introducing some order into the information supplied by the Governments. He agreed with the President regarding the first part of the sub-committee's terms of reference, but he intended subsequently to make a proposal with a view to extending somewhat the powers and sphere of activity of the sub-committee.

The President asked if it was not preferable for M. de Modzelewski to make his proposal immediately.

M. DE MODZELEWSKI (Poland) replied that his proposal might give rise to a lengthy discussion. He therefore preferred to bring it before the Commission after appointment of the sub-committee. He would, however, be guided by the President's wishes.

The PRESIDENT said that M. de Modzelewski would be fully entitled to propose the extension of the sub-committee's terms of reference as and when questions arose which might be referred to it.

M. DE QUEVEDO (Portugal) asked what criteria would be taken by the Bureau in making its proposals for the appointment of the members of the sub-committee. Would they be representatives of States accompanied by technical experts, or merely technical experts, or would they be delegates who were also technical experts ?

The PRESIDENT replied that the Bureau had no fixed views on this point. It proposed to get in touch with the various delegations before coming to any decision regarding the composition of the sub-committee. The Bureau would not make definite proposals until it had consulted the delegations.

It was decided to request the Bureau to submit at the next meeting concrete proposals regarding the composition of the sub-committee.

FOURTH MEETING

Held on Wednesday, March 16th, 1932, at 5 p.m.

President : M. VALDÉS-MENDEVILLE.

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6. APPOINTMENT OF A TECHNICAL COMMITTEE : DRAFT RESOLUTION SUBMITTED BY THE BUREAU (document Conf.D./C.D.3).

The PRESIDENT read the draft resolution drawn up by the Bureau in accordance with the Commission's decision at its previous meeting regarding the appointment of a technical committee.

A change had been made in the composition of the Committee as regards the representation of the United States of America, Brigadier-General George S. Simonds being replaced by Mr. Norman H. DAVIS.

Before opening the discussion on this proposal, the President wished to give the Commission some explanations. As regards point 1 of the draft resolution—namely, the composition of the Technical Committee—the President pointed out that, in appointing M. Radulesco as Chairman, the Commission would be following the practice of the other Commissions of the Conference, which usually appointed a member of their Bureau to preside over their sub-committees.

In order to comply with the general tendency expressed in the Commission, the Bureau had wished to make the Technical Committee as small as possible, and had therefore restricted it to twelve members. Consequently, the Bureau had possibly not been able to provide for the representation of all the systems in force. In order to obviate this defect, the Bureau had inserted in the draft resolution the clause authorising the Technical Committee to co-opt other experts.

With regard to point 2, which dealt with the Technical Committee's terms of reference, the President hoped that all the delegations would co-operate actively with the Committee. Some of them had perhaps realised that the information communicated by their respective Governments presented certain defects, and should be supplemented by further explanations.

The President then opened the discussion on the draft resolution.

M. DE MODZELEWSKI (Poland) pointed out that the Technical Committee's most important task would be to bring a certain uniformity into the replies furnished by the Governments on the subject of their expenditure for national defence. It would be difficult for the Technical Committee to fulfil this task unless it had exact information as to the budgetary systems

in force—that was to say, the budgetary legislation of various countries and the departments whose duty it was to propose, accept or supervise budgetary expenditure. The delegations should therefore be requested to communicate any useful information on this subject to the Bureau as soon as possible. For this purpose M. de Modzelewski proposed, on behalf of the Polish delegation, the addition of the following paragraph to the draft resolution:

> "The National Defence Expenditure Commission invites the delegations of the States represented therein to supply the Bureau as early as possible with complete information on the budgetary systems in force in their respective countries (preparation of the budget, its adoption, execution and supervision). This information must be forwarded by the Bureau to the small Committee of Experts, which must study it and draw up concrete proposals."

M. SATO (Japan) thought that the difference in the budgetary systems was such as to give rise to considerable difficulties in the Technical Committee. From this point of view, the Polish delegation's proposal was highly important, and the Japanese delegation could not but support it strongly.

M. GIGNOUX (France) said that, for the very convincing reasons given by the Japanese delegation, the French delegation supported M. de Modzelewski's proposal.

M. D'AVILA LIMA (Portugal) said that, in principle, he agreed with M. de Modzelewski. He was, however, afraid that this proposal might carry the Technical Committee too far. He did not wish the Committee to be made to study the constitutional law of all States and to examine the lawfulness of budgetary expenditure. If M. de Modzelewski's proposal aimed merely at obtaining concise information with a view to facilitating the task of the Committee of Experts, M. d'Avila Lima could not but agree with it.

Colonel KARMANN (Germany) on behalf of the German delegation, accepted the draft resolution proposed by the Bureau. He hoped the Technical Committee would get to work as soon as possible and that it would refer to the Commission any political questions or questions of principle which might arise during its work, and that it would not lose sight of the very close connections existing between itself and the Committee of Experts on Budgetary Questions. He expressed the hope that the Committee would, in the first place, devote all its efforts to the question of publicity of expenditure, and that it would carefully avoid the question of limitation—at any rate, at the beginning of its work. This did not mean that the door to limitation should be closed. On the contrary, he had always been of opinion that proper publicity formed the first step towards technically possible and morally satisfactory limitation. Publicity was the most effective means for future limitation.

Count CAVALLERO (Italy) desired to make an addition to M. de Modzelewski's proposal, the value of which he fully appreciated. The delegations should be requested to send to the Bureau, at the same time, one or more copies of the budget and the closed accounts which had been used for filling in the model statement, and to supply information regarding the sums appearing in the extra-budgetary accounts which had been included in the model statements. He made these remarks merely as a suggestion.

The PRESIDENT noted that Count Cavallero did not intend to make a formal proposal. In this connection, he pointed out that the information in question existed to a great extent in the general documentation at the disposal of the Technical Committee. The Secretariat had drawn up a list containing the budgets of most States. Moreover, the Technical Committee would always be in a position to request the delegations concerned to supply any budgets which might be lacking. As, moreover, the Italian delegate's suggestions would appear in the Minutes, the Committee would not fail to take them into consideration.

M. LANGE (Norway) was afraid that the Polish proposal might, in practice, result in the supply of a mass of papers, and that the Technical Committee's task might be rather hindered than facilitated by undertaking theoretical work on the budgetary systems in various countries. In principle, he had no objection to this proposal, but wished to emphasise the danger which it involved. As the Secretariat already had fairly complete information on the problems involved in the Polish proposal, the delegations might be furnishing information which would overlap that which was already available. In order to meet this disadvantage, M. Lange thought M. de Modzelewski's proposal should be interpreted in such a way as to avoid any unnecessary work on the part of the delegations and of the Committee. The delegations should merely be requested to supplement the existing information.

M. HIITONEN (Finland) appreciated the Norwegian delegate's fears that the Technical Committee might be overwhelmed with a mass of papers. In this particular case, however, the situation appeared to be slightly different. The Secretariat possessed information as a result of various enquiries, but it did not possess documentation enabling it to judge who

these results had been obtained. The figures would be of real value only if all the details on which they were based were known. The Finnish delegate proposed that, for this purpose, a short questionnaire should be drawn up, and the meaning of the remarks included in brackets in the text of the Polish proposal should be made clear. This should assist the Technical Committee.

The PRESIDENT asked whether the Commission wished to vote on M. de Modzelewski's proposal, as a further point 4 to be added to the resolution or as an addition to point 3.

M. DE MODZELEWSKI (Poland) preferred that an addition should be made to point 3.

The PRESIDENT asked whether the object would not be reached by adding the following sentence to the end of point 3:

"It also requests them to furnish the Committee with as complete information as possible on the budgetary systems in force in their respective countries (preparation of the budget, its execution and its supervision)."

M. DE MODZELEWSKI (Poland) preferred that this addition should be made at the beginning of point 3, and that it should be specified that the information in question should be furnished without delay.

M. GIGNOUX (France) suggested making clear that the information in question would be furnished in accordance with a questionnaire.

The PRESIDENT *suspended the meeting in order to enable the Bureau to draw up a definite text.*

* * *

When the meeting reassembled, the PRESIDENT read the draft resolution in the final form submitted by the Bureau, incorporating the additions proposed:

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

"*Chairman:* M. RADULESCO (Roumania).

"*Members:* M. ARAKAWA (Japan); M. GROBINE (Union of Soviet Socialist Republics); M. JACOMET (France); Colonel KISSLING (Switzerland); Mr. LYON (United Kingdom); M. DE MODZELEWSKI (Poland); M. SANDLER (Sweden); Mr. Norman H. DAVIS (United States of America); M. TUMEDEI (Italy); Commander RODRIGUES DE VASCONCELLOS (Brazil); M. WORBS (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.

"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, including closed accounts on which the model statement had been prepared, as well as with the information and explanations which might be required by the Committee in order to carry out its task. It requests them, in particular, to furnish the Committee, as early as possible, with as complete information as possible on the budgetary systems in force in their countries (preparation of the budget, its presentation, adoption, execution and supervision), in accordance with a questionnaire to be prepared by the Technical Committee."

The draft resolution was adopted.

FIFTH MEETING

Held on Tuesday, April 26th, 1932, at 11 a.m.

President: M. RADULESCO.

7. Report on the Work of the Technical Committee.

In the absence of M. de Vasconcellos (President) and of M. Valdés-Mendeville (First Vice-President), M. Radulesco, Second Vice-President, took the chair.

The President reported to the Commission on the work of the Technical Committee and also pointed out some difficulties encountered by the latter, which could only be removed with the co-operation of all the delegations represented on the Disarmament Conference. Under its terms of reference, the Technical Committee had, in the first place, to examine such technical questions relating to the publicity and limitation of expenditure as the Commission might subsequently think fit to refer to it; no question of this kind had hitherto been submitted. The Committee's second task was to study the documents relating to national defence expenditure submitted in accordance with the decision taken by the Council of the League of Nations on May 23rd, 1931, together with any additional documents and explanations furnished by the delegations.

As far as this second task was concerned, the Committee, under the resolution adopted by the Commission on March 16th, had proceeded to draw up a questionnaire relating to the special features of the budgetary systems in force in the different countries. After three meetings, the questionnaire was drawn up and was forwarded to the delegations on March 21st. The covering letter to the delegations requested them to send full particulars in three copies at the earliest date and, if possible, before April 11th. The documents required were the model statement filled in on the basis of the last available closed accounts and in conformity with the recommendations of the Experts on Budgetary Questions, the closed accounts or the actual statement of account in the year for which the model statement was drawn up, the reconciliation table showing the manner in which each figure inserted in the model statement had been extracted from the closed accounts or from the final statement of expenditure, the necessary explanations as to the method followed for filling in the model statement, the budget of the year for which the model statement was drawn up and, lastly, replies to the questionnaire regarding the budget system.

The Technical Committee unanimously agreed that the reconciliation table was the most essential document, as it enabled a thorough examination of the model statement to be made. Moreover, the Committee thought that for the purpose of this examination it would be necessary to have a translation in one of the official languages of the closed accounts and of the budgets, at any rate in so far as they concerned expenditure on national defence, whether the expenditure formed part of the military budgets properly so-called, those of civil departments or those of other public institutions. In a letter of April 15th (document Conf.D./C.D.8), the delegations were requested to forward this translation as early as possible and to inform the Secretariat of the approximate date on which it could be supplied.

When the Conference resumed its work, the Technical Committee proceeded to fix the rules of procedure for examining the documentation supplied by the States. It decided to state in the introduction to the rules of procedure the guiding principles to which it should conform and the object it should have in view. The Committee of Experts on Budgetary Questions had studied methods of publicity and of limitation of expenditure as provided in the draft Convention. In its report, it had indicated the form in which it considered the model statement should be drawn up and had recommended certain instructions which should be followed in filling in this statement. By examining the documentation submitted to it, the Technical Committee had now to ascertain whether the model statement was a practical instrument by means of which States could set out all the expenditure on national defence incurred by them during the course of one year. The documentation must therefore be examined from the point of view of the universality of national defence expenditure, its classification, the reconciliation of the model statement with the figures and accounts published by the State, the verification of these figures and the difficulties encountered by the States in drawing up the model statement.

In its rules of procedure the Committee had provided for a written procedure to be followed by an oral procedure; it had been aware that the written procedure, although longer, was the only one which could ensure an effective examination of the documents. It had therefore decided that the questions and observations regarding documents deposited by any Power, together with the replies to these questions and any observations thereon, should be given in writing.

The discussion on the observations and on the entire documentation would take place orally in the Committee in the presence of the delegate of the Power concerned. The Committee had been careful to reserve the right, if necessary, to make a fresh oral examination in the case of certain Powers.

In its rules of procedure, the Committee had laid down the principle of the simultaneity of the exchange of information regarding national defence expenditure. The Committee had been aware that it was impossible to examine the documents supplied by one Power if the other Powers had not deposited complete documents. In submitting the reconciliation table, the Powers represented at the Conference would be furnishing a means of obtaining an intimate knowledge of national defence expenditure. It was logical and only fair that all Powers should first have deposited complete documents in good and due form before the examination of the documents submitted by any Power could be undertaken. In order to ensure the application of this principle, the Technical Committee had formed a sub-committee consisting of M. Sandler (Sweden) and Colonel Kissling (Switzerland) for examining the documents received and reporting to the Technical Committee, which would decide whether the principle of simultaneity was sufficiently safeguarded and whether the examination of the documents could begin. Not until this had been done would the documents be communicated to the members of the Technical Committee and the delegations not represented on that Committee. Until that time, the documents would maintain their confidential character and would be placed in the custody of the Secretary-General of the Commission.

The President then explained the mechanism for examining the documents and the order in which that examination would take place. Although it had been decided to fix the order by drawing lots, some Powers had stated that they were prepared to agree that their documents should be examined without regard to such order. For instance, Switzerland, the United Kingdom, Germany and Sweden had agreed to submit to this examination before their turn. There should, however, be no misapprehension as to the meaning of document Conf.D./C.D.9, which stated the order in which the information submitted to the Technical Committee would be examined. The delegations should not draw the conclusion that they were not obliged to deposit the necessary documents until their turn came. The examination of the documents could not be started until all the Powers had deposited all the documents required of them.

When the documents were complete, the Bureau of the Committee would fix a time-limit of about twenty days for the communication of any observations that the delegations might wish to make on the documents of a given Power named by the Bureau. A time-limit of ten days would then be given for sending replies to such observations. When these replies had been received, the discussion on the entire documentation and on the explanations given by the delegation concerned would be opened in the presence of that delegation's representative. The Bureau of the Committee would take all the necessary steps to enable the periods provided for each delegation to start as far as possible every other day or even every day.

After furnishing these explanations, the President informed the Commission of the main difficulty encountered by the Technical Committee. In the first place, the documents were not being submitted rapidly enough; the number of Powers who had already deposited their documents was very small. Moreover, the nature of the documents deposited did not always conform to the conditions necessary for an effective examination. Some model statements were filled in on the basis of budget credits; others were not accompanied by the reconciliation table and the closed accounts, and others, lastly, were not accompanied by the budgets of the year selected for filling in the model statement. In these circumstances the Committee could only begin to examine the documents for the Powers who had waived the application of the principle of the simultaneous exchange of information. At the present time, in the case of Switzerland and the United Kingdom only, the time-limit fixed for submitting observations expired on May 10th. The Commission would be aware that the examination of the documents of the sixty Powers represented at the Conference would take at least two months after the first time-limit of twenty days fixed in the manner he had already stated. The Technical Committee's report would be somewhat delayed even if the Powers submitted their documents immediately. The difficulty would be much greater if they did not do so. The Technical Committee had been instructed to examine the documents. It could not carry out its instructions if the documents were not submitted to it. The Committee did not wish it to be said that it had not done everything in its power to accelerate its work. He wished to draw the attention of the Commission to the difficulties encountered so that it might address the most urgent appeal to all the delegations to deposit the required documents at the earliest possible date.

M. BORBERG (Denmark) agreed that the rules of procedure drawn up by the Technical Committee were excellent in every way, and were not open to any criticism. It might perhaps be said, however, that the general aim of the Committee's work had been described in somewhat categorical terms. The Technical Committee should not think that it was prevented, if necessary, from suggesting modifications in the model statement. He also wished to point out that the rules of procedure were drawn up somewhat too rigidly. For instance, Point IV stated that the documents of Powers might be examined if the Powers in question offered voluntarily to submit to such examination before lots were drawn. The Committee might perhaps be entitled to make an exception with regard to the order established by the drawing of lots in the case of Powers who had made the same offer after lots were drawn.

The PRESIDENT replied that the Technical Committee had been careful to make its rules of procedure as elastic as possible. There was nothing to prevent documents being examined

before their turn in the order fixed by drawing lots in the case of any Powers expressing their willingness to submit to such an examination. The Committee would, on the contrary, be very glad to do so in order to accelerate the work.

Dr. Mary WOOLLEY (United States of America) said her Government had submitted all the documents requested except the reconciliation table, which would shortly be deposited. She wished, however, to make a remark regarding the progress of the Commission's work. In view of the considerable time which would elapse before the Technical Committee could submit its report, which could not be prepared for two months even if the delegations sent all the documents requested without delay, it would appear that the National Defence Expenditure Commission would be obliged to postpone its work, at any rate until the end of June, and could not resume it until it had received the Technical Committee's report.

The PRESIDENT replied that the Technical Committee would be able during the course of the following week to give an opinion whether it could fix the opening dates of the periods for making observations on the documents deposited by the various States. Once this point was established, the Technical Committee could sit in the morning and the Commission in the afternoon. The latter would not be obliged to postpone its work.

Colonel KARMANN (Germany) expressed his appreciation of the President's clear statement. On behalf of the German delegation he strongly supported the request that the delegations should furnish any documents which were lacking at the earliest possible date.

M. DE QUEVEDO (Portugal) explained that his Government had used the figures of budget estimates in order to fill up the model statements. These figures were, as a rule, in conformity with the closed accounts, since for many years the Portuguese Ministry of Finance had not been asked for additional credits.

M. MASSIGLI (France) wished to make a remark which had occurred to him during the President's statement. The machinery set up by the Technical Committee was without doubt admirable in its precision, and the Committee could not but be congratulated on it. Considerable uneasiness must, however, be felt regarding the consequences which the inevitable slowness of the Technical Committee's enquiry might involve for the work of the Conference as a whole, if the Committee intended to make a close study of the documents submitted by all the Powers represented at the Conference. It should be remembered that the Conference could not take a decision regarding the system of budgetary limitation unless it had at its disposal the conclusions of the Expenditure Commission. The latter in turn could not express its opinion until it had received a reply from the Technical Committee. Until that reply was received, it would be impossible to state whether the method of limitation and publicity of expenditure proposed by the Committee of Experts on Budgetary Questions was feasible. This showed the great importance of the Technical Committee's work for the entire Conference. He did not underestimate the difficulties of the task entrusted to that Committee. The questions submitted to it were entirely new for the Governments, most of whom had experienced great difficulty in filling in the model statement. He would ask whether it was not possible to accelerate the work, in the first place, by urging the Governments to deposit the missing documents at the earliest date, and, in the second place, by speeding up the procedure. The Technical Committee was not asked to supervise all the figures contained in the model statement, but to state, on the one hand, whether the Governments met with difficulties in filling in the model statement in accordance with the instructions of the budgetary experts and, on the other, whether, after examining the documents and the information supplied by the Governments, it was possible to ascertain (1) that all the expenditure relating to national defence had been included in the model statement and (2) that this expenditure had been divided up among the categories to which it really referred. In order to reply to these questions, the Technical Committee was not necessarily obliged to make a close study of each figure in the model statement. It might be sufficient to make one or two random tests in the documents of each of the Powers represented at the Conference. Moreover, it might reduce the time-limits which it had fixed, since it would no longer be necessary to make a complete examination of the particulars supplied by each country. One thing was certain : the General Commission would constantly encounter questions which were within the competence of the Expenditure Commission, and the latter could not give an opinion without consulting the Technical Committee. That explained the apprehensions felt by the French delegation, which its representative was in duty bound to lay before the Commission.

The PRESIDENT, while realising M. Massigli's uneasiness, pointed out that the Technical Committee had to leave the domain of theoretical recommendations contained in the budgetary experts' report and enter that of practical application ; it had to enquire whether the theoretic system drawn up by the experts could be put into practice. That was a long task. The Committee would do everything in its power to shorten the work, but it must be remembered that the delay was due principally to the fact that it had not the necessary material for beginning its work. The period of twenty days fixed by the Committee should not be regarded as

an absolute limit. It might be reduced according to circumstances. Nevertheless, this period was only apparently a long one. If all the Powers submitted their documents in time and if the Committee could from day to day progressively fix the opening dates for the examination of the various Powers' documents, the period would in reality be not more than forty-eight hours.

In reply to M. Borberg, the President stated that the Technical Committee could not take the initiative in proposing any alteration in the model statement. Its duty was merely to point out any defects. If necessary, it was for the Commission to discuss and decide upon the necessary alterations.

Colonel RIAZI (Persia) drew the Commission's attention to the difficulties encountered by his Government in drawing up the model statement. The Persian army was being wholly reorganised. The military credits for the year 1931-32 had been voted as a total amount. It had been left to the Minister of war to distribute this total amount among the various departments of the army. Moreover, as the Persian budget year ended on March 21st, 1932, the Government could not give the figures for the year 1931-32 in the model statement. Lastly, in view of the depreciation of Persian currency and of sterling, the Persian Government had been compelled to apply for an additional credit in order to make up the deficit due to the difference in the rate of exchange. For all these reasons, the information required of the Persian delegation could not be supplied until the beginning of May.

The PRESIDENT pointed out that it was not essential to fill in the model statement in accordance with the closed accounts for 1931. It would be sufficient to base the model statement on the figures of a budget year for which closed accounts were available.

M. SANDLER (Sweden) realised that M. Massigli's uneasiness was well founded. He did not think, however, that the Technical Committee could merely make random tests of the documents supplied by the Powers. If the Committee required too much, there was a danger that it could not begin its work, but if, on the other hand, it did not require enough, there was a danger that it might never be able to finish. A middle way must be found which would make it possible both to begin and to end. The essential condition for the success of the Technical Committee's work was, as the President had said, co-operation between all the delegations represented at the Conference. If the Committee received such co-operation, it would do all in its power to accelerate the progress of its work.

Viscount MUSHAKOJI (Japan) congratulated the Committee on the work it had hitherto accomplished. He understood M. Massigli's uneasiness, but from a practical point of view he inclined more to M. Sandler's opinion.

Colonel KARMANN (Germany) agreed in principle with the French delegate. The German delegation would support any proposal for accelerating the work of the Conference. He pointed out, however, that the Technical Committee had a very complicated task. Its report must form a firm basis for the work of the Commission, and nothing should be left undone to make it as complete as possible. If this task was properly fulfilled, the Commission which had been the last to start might be the first to reach the goal.

Mr. BARNES (United Kingdom) supported the speakers who had pleaded for rapid action. He was in particular agreement with the Swedish representative's view that more haste might mean less speed. It might appear that not much real progress had hitherto been made, but those who were in touch with the Technical Committee were aware how earnestly and assiduously it had approached its task. The Commission was now passing from theory to practice. The essential point was to provide the Technical Committee, as soon as possible, with the information it required. The delegation of the United Kingdom, after that of Switzerland, had agreed voluntarily to submit its accounts for examination before its turn. It had done so with some hesitation, for it was no light task to submit accounts, the authors of which had had no thought that they would be subjected to the critical examination of such a competent international body as the Technical Committee. The delegation of the United Kingdom considered that the earliest possible submission of the documents required was the best way to ensure success.

M. MASSIGLI (France) said he had no intention of criticising the Technical Committee or the method which it had followed. He had merely wished to draw attention to one of the aspects of the problem on account of the possible consequences of applying the method adopted.

The PRESIDENT called the roll of the countries represented at the Commission and requested them to state by what date they could furnish the required documents.

Major PIENAAR (South Africa) said the documents required would be deposited in a week.

M. Lec KURTI (Albania) said the documents would be deposited in ten days.

Colonel KARMANN (Germany) stated the documents regarding his country would be submitted in ten days in German and in four weeks in one of the official languages of the League of Nations.

Colonel MORO (Austria) said that the Austrian documents would be furnished at the latest on May 15th.

M. PRENEN (Belgium) fixed May 15th as the limit on which the Belgian delegation could submit complete documents.

M. RIBEIRO (Brazil) and Colonel MARINOFF (Bulgaria) also promised to supply the documents for their respective countries by May 15th.

Mr. PEARSON (Canada) said the Canadian delegation had deposited the documents required on the morning of the same day. He hoped these documents were complete.

M. LIOU VONTAO (China) said the Central Government had been requested to furnish the documents required and they would be received shortly. He drew attention to the delay which would be caused by translating these documents. He hoped that the information regarding his country would be deposited in about a month.

M. BORBERG (Denmark) said the documents requested had left Copenhagen and were expected at Geneva. Denmark agreed that her documents should be examined without regard to the order fixed by drawing lots. In reply to a question by the President, he said that this implied that Denmark waived the application of the principle of simultaneity.

M. PEDROSO (Spain) thought that some documents could be supplied very shortly. Other documents could only be submitted about May 12th to 15th.

M. SCHMIDT (Estonia) said his Government had furnished complete documents. The only document which was lacking was the budget, which the Government had been requested to supply. Only a small number of copies of this document were printed and it might, therefore, not be available. In this case the Estonian delegate would request the Technical Committee to refer to the copies in the Library of the League of Nations.

Dr. Mary WOOLLEY (United States of America) announced that the documents of her country would be complete about May 15th.

M. HIITONEN (Finland) said the documents concerning Finland were at present on the way. They could probably be deposited on Monday next.

M. MASSIGLI (France) said the French delegation had submitted complete documents on April 12th.

M. PIPINÉLIS (Greece) promised the required documents for May 15th.

General TANCZOS (Hungary) announced that the Hungarian documents had been deposited that morning.

Colonel ELLIS (India) informed the Commission that his Government had already sent the required documents. The Indian delegation waived the application of the principle of simultaneity.

M. CAMBI (Italy) stated that the Italian documents were complete except as regards the closed accounts which were at present being printed and could be deposited at an early date.

Viscount MUSHAKOJI (Japan) stated that, on receipt of the letter of March 21st, the Japanese delegation had cabled to its Government for the original texts of the estimates and accounts for 1929, the figures of which had been used to fill in the model statement. It hoped that these documents would arrive within ten days. When the Japanese delegation received them it would supply all the documents requested in the above-mentioned letter, with a translation of the texts of the estimates and accounts relating to expenditure on national defence. As regards the reconciliation table, the Japanese delegation had drawn it up in accordance with the British Admiralty's model. Although the Japanese delegation was not prepared to waive the principle of simultaneity, it relied on the Sub-Committee's judgment to place an elastic interpretation on that principle.

M. LANGE (Norway) stated that the missing documents would be received in two weeks. Norway waived the application of the principle of simultaneity if such a step was calculated to accelerate the work.

M. VLIEGEN (Netherlands) said that the reconciliation table, the only document which was lacking as far as his country was concerned, would be ready in a fortnight in respect of the expenditure incurred in the Netherlands and in three weeks in respect of the expenditure of the oversea territories. The Netherlands Government waived the principle of simultaneity.

M. DE MODZELEWSKI (Poland) said that the documents relating to his country would be complete at the end of the week.

M. DE QUEVEDO (Portugal) stated that documents drawn up on the basis of closed accounts could be submitted about May 10th.

Colonel GAMOESCO (Roumania) thought his delegation would require ten or fifteen days in order to deposit complete documents.

M. SANDLER (Sweden) said the documents relating to his country had been deposited on the previous day.

M. FARSKY (Czechoslovakia) said that all the documents requested had been deposited except the reconciliation table, which would be ready on the following day, and the replies to the questionnaire on the budget system, which would be supplied in ten or fifteen days.

Necmettin SADIK Bey (Turkey) fixed May 15th as the date on which his delegation could submit the additional documents requested.

M. VENTZOFF (Union of Soviet Socialist Republics) announced that the Soviet delegation had that morning submitted information relating to the budget system. The other documents would be ready about May 15th.

M. PERNE (Yugoslavia) thought the remainder of the documents to be supplied by his delegation could be deposited on May 10th.

The PRESIDENT noted that the replies were not very encouraging. On an average, the time required extended up to May 10th or 15th. Four countries had waived the principle of simultaneity. That would somewhat facilitate the work.

M. MASSIGLI (France) said that the French delegation, which had requested that the work of the Technical Committee should be accelerated as far as possible, felt compelled to do everything in its power to reach that aim. If it was found that the application of the principle of simultaneity might hinder the progress of the work, the French delegation would consider the possibility of waiving that principle as far as it was concerned.

Colonel RIAZI (Persia) stated that Persia also would waive the principle of simultaneity as soon as the documents expected were received.

SIXTH MEETING

Held on Friday, May 6th, 1932, at 3.30 p.m.

President: M. DE VASCONCELLOS.

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8. DOCUMENTATION SUPPLIED BY THE JAPANESE DELEGATION: APPLICATION OF THE PRINCIPLE OF SIMULTANEITY.

Viscount MUSHAKOJI (Japan) wished to state before the general discussion began that his delegation had handed all the documents regarding budgetary expenditure to the Bureau of the Commission on May 5th. At the same time, the delegation wished to state that it was prepared to waive the principle of simultaneity as soon as all countries represented in the Technical Committee had sent in their documents.

9. STATEMENT BY THE PRESIDENT: ORDER OF THE DISCUSSION.

The PRESIDENT said it had been thought useful to convene the Plenary Commission before the Technical Committee finished its work. It was true that some questions would have to be decided by the Technical Committee before they could be discussed by the Commission, but there were other questions which the Commission could discuss without delay. He referred to the agenda, which opened with two preliminary questions, namely:

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

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

10. Discussion of the First Preliminary Question: Necessity for a Uniform Presentation of Figures for National Defence Expenditure of the Various Countries: Proposal by the German Delegation.

M. Jacomet (France) said the French delegation was of opinion that for any convention regarding limitation or publicity it was indispensable to have some instrument enabling information to be submitted on a uniform basis.

It had been found in the Technical Committee that there were great differences in the manner of preparing the budgets of different countries. In some countries the budgets were prepared on the basis of gross expenditure, and in others on net expenditure. The difference between net and gross expenditure was often very great. In many countries the expenditure on State enterprises was included in the budget figures, while in other countries such enterprises were autonomous and their figures did not appear in the military budgets. There was an increasing tendency to include expenditure for national defence in civil budgets. The military budgets were thus incomplete, and it would be misleading to regard them as containing the total military expenditure. Again, in some countries pensions were included in the military budget, while in other countries they figured in the budget of the Ministry of Finance or the Ministry of Pensions. There were, further, considerable divergences in the method of treating military expenditure in the colonies. The system varied according to the nature of the ties between the colonies and the home country. In some cases the home country included colonial military expenditure in its budget, while in other cases it appeared in the budgets of the colonies. Lastly, there were in some cases working funds of large amounts, which should be subject to limitation, and in many countries there were special funds from which payments could be made without being included in the budget. All these factors created confusion and made comparison extremely difficult. It was therefore essential to arrive at a common conception of national defence expenditure. For this purpose a conventional list of expenditure must be drawn up, classified in a uniform manner for all countries. That was what the Committee of Experts had done.

In this respect the French delegation entirely agreed with the principle laid down by the Committee of Experts on Budgetary Questions.

Colonel Karmann (Germany) was glad that the Bureau had placed the two cardinal questions of uniformity and comparison at the head of the agenda. These two questions, connected as they were with the fluctuation of currency and the preparation of the budget, were the most important points which the Commission had to decide.

He agreed with the French delegate that a formula should be arrived at for comparing figures in respect of limitation and publicity. His delegation was prepared to accept the model statement drawn up by the budgetary experts, except for some minor points which he would refer to later.

He agreed with the French delegate as to the necessity of unifying the more important documents. He thought, however, that not only should the reconciliation tables be made uniform, but the budgets of the various countries should also be drawn up in a uniform manner.

He approved the Soviet delegation's proposal, contained in paragraphs 178 and 179 of the Report by the Committee of Experts on Budgetary Questions, that all expenditure on national defence should be collected into one group of the budget.

He read the following proposal:

"Considering that the value of the budgetary documentation to be submitted increases in proportion to the correctness and clearness of the data furnished, the German delegation makes the following proposal:

"(1) The reconciliation tables are to be submitted on a uniform model in accordance with the principle that the model statement must be drawn up on a uniform basis.

"(2) In conformity with the same principle, the German delegation would be glad if the military budgets and the corresponding closed accounts of the various countries were also drawn up on a uniform model.

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

Mr. BARNES (United Kingdom) said that all were in sympathy with the object put forward by the French and German delegates in respect of the uniform presentation of statements. But he thought it better to proceed with caution. As the President had pointed out, a number of points would have to be postponed until the Technical Committee had reached certain decisions. For the moment he thought it was better to keep to general principles.

He understood that the German delegation had proposed that all countries should be requested to draw up their budgets on uniform lines. The work of the Commission would in any case be lengthy, and if any attempt were made to carry out such a revolutionary proposal the work would be still further prolonged. What the Commission should insist upon was a uniform model statement and reconciliation table, together with certified closed accounts.

The Commission unanimously accepted the principle laid down in this item of the agenda.

11. DISCUSSION OF THE SECOND PRELIMINARY QUESTION: IMPOSSIBILITY OF COMPARING THE STRENGTH OF ARMAMENTS OF VARIOUS COUNTRIES ON THE BASIS OF THE FIGURES OF DEFENCE EXPENDITURE: STATEMENT BY THE FRENCH DELEGATION.

The PRESIDENT pointed out that at the meeting on March 14th it had been decided to deal with this question at the beginning of the discussion and at the same time to leave it open for subsequent discussion. He pointed out that the budgetary experts had strongly held the view that the figures in the model statement could not be used as a basis for comparing the level of armaments in different countries.

M. JACOMET (France) proposed that, in view of the importance of this question and its effect on questions to be subsequently dealt with, it should be discussed immediately.

Colonel KARMANN (Germany) supported this view.

M. JACOMET (France) made the following statement:

" The Commission on National Defence Expenditure is acting quite rightly in raising, at the outset of its discussion, the preliminary question whether it is possible to compare the strength of armaments of various countries on the basis of the figures of National Defence Expenditure.

" The reply to this question will have a far-reaching effect on our subsequent discussions, when we have to decide whether the model statement of expenditure drawn up by the experts is to be used for the purpose of publicity or of limitation.

" Moreover, everything, or almost everything, has already been said on this subject.

" It has been dealt with in turn by Sub-Commission 'B' and Sub-Commission 'A' of the Preparatory Commission and also by the Committee of Budgetary Experts, and these three bodies have replied that it was impossible to compare the strength of armaments of various countries on the basis of the figures of their military expenditure.

" During these discussions the French delegation has always affirmed its categorical opinion on this point and has declared that armaments expenditure cannot in any case be considered as a criterion for comparing the armaments themselves.

" The French delegation, which attaches primary importance to this question, would therefore like to summarise the essential arguments on which its conviction is based.

" Every military budget comprises essentially:

" (*a*) Expenditure for personnel;

" (*b*) Expenditure on material.

" *Expenditure for Personnel.*

" The expenditure for personnel may be subdivided into—

" Pay;

" Expenditure for maintaining the effectives.

" The rates of pay are fixed in each country in accordance with the standard of living. The standard of living, however, differs greatly in different countres, so that the pay of soldiers of the same rank, when reduced to its gold value, represents very different rates. If the pay of a certain rank is represented by 100 in one country, it may be 50, 150, 200, or even 400 in other countries.

" But the total expenditure on pay also varies with the type of organisation of the armies. In a professional army the expenditure for pay is relatively higher, in principle, than in a conscript army. Volunteers and professional soldiers receive high rates of pay, while, on the other hand, compulsory military service is regarded as a tax and the remuneration to which it usually entitles the soldier is negligible.

" In a conscript army a reduction in the duration of service may bring about an increase in the expenditure for pay, on account of the necessity of recruiting professional soldiers for training and for the cadres. A conscript army, with a very short period of service, might be one of the most costly forms of military organisation.

" The expenditure on pay in different countries, therefore, bears no relation to the number of effectives with the colours.

" Expenditure for maintaining personnel—that is to say, expenditure which aims at immediately satisfying the material needs of effectives (food, clothing, lodging, heating, etc.)—depends on the standard of living of the troops, which is itself related to the general conditions of life, the customs and the climate of the country.

" In all these respects there are considerable divergencies. If we consider merely expenditure on food, it will be seen that the amount of such expenditure is affected very differently by the conditions of national production and by customs policy.

" The movements of internal prices vary greatly in different countries during the same period.

" Moreover, the various material needs of the troops are supplied sometimes by private enterprise and sometimes by administrative services, which function very differently in different countries and employ labour and materials at very different rates.

" In some armies, the labour required by such services is partly furnished, without any special pay, by men belonging to the annual levy ; if the duration of military service is reduced, it becomes necessary to call in permanent salaried labour, which places a heavy burden on the maintenance credits of the troops.

" These administrative services are organised on more or less industrial lines in different countries and their output varies greatly. Consequently, comparisons of expenditure relating to the maintenance of effectives cannot give even an approximate idea of the strength of such effectives, or of the manner in which their material needs are satisfied.

" *Expenditure on Material.*

" With regard to the expenditure on material, it may be noted that the cost of maintenance and of the manufacture of war material or buildings is influenced by the price of materials, wages, the conditions of manufacture, the degree of industrial yield, the amount of capital invested and the markets.

" These elements vary considerably in different countries.

" The maintenance of the material demands expenditure both for wages and for current materials, such as carpentry and painting in the case of maintaining buildings, and spare parts, tools, packing, lubricating grease and oil for the maintenance of the material.

" The prices of these current materials vary greatly in different countries. Labour is sometimes supplied by the men of the annual levy and thus costs nothing or practically nothing, and sometimes by a permanent staff of workmen whose wages vary considerably.

" To give merely one example : according to information obtained from the International Labour Office, a mason received for 48 hours' work in October 1931 :

	Dollars
" In Brussels	8.34
" In Paris	12.29
" In London	15.59
" In Philadelphia	72 to 84

" This means that in America the amount of gold required to pay for one week's work of a mason is five times as great as in Great Britain, seven times as great as in France and ten times as great as in Belgium.

" Again, the yield of the work varies in different countries. This depends on the relative value of the workmen and their discipline, but more particularly on the method of organising the work, the degree of perfection and industrialisation of the services.

" The expenditure on the maintenance of material therefore cannot in any way be a criterion either of the relative value of the materials or of their degree of maintenance in the different armies.

" But these facts become even more evident when analysing the expenditure on the manufacture of war material.

" The expenditure on manufacture or construction varies according to the cost price of the material. The cost of a manufactured article includes the wages for the labour employed, the price of the material embodied in the manufactured article and, lastly, part of the general expenditure of the establishment or undertaking carrying out the manufacture or construction, such as motor power, transport, cartage, etc.

" This general expenditure is, moreover, more or less elevated according to the degree of the organisation and concentration of the undertakings and the intensity of manufacture. It may be subdivided broadly into expenditure on wages and materials.

" If we examine in turn the elements of cost price, it will be noted in the first place that the cost of labour has always varied according to the country. There have always been countries with high wages and countries with low wages, corresponding to the various standards of living of the working classes. Economic and monetary disturbances since the war have further increased these divergencies.

" A fitter received for 48 hours' work in October 1931 :

	Dollars
" In Brussels	7.61
" In London	12.50
" In Paris	11.25 to 12.95
" In Philadelphia	29.81

" A labourer received for the same number of hours at the same period :

	Dollars
" In Brussels	5.69
" In London	9.00
" In Milan	5.35
" In Philadelphia	21.48

" These figures show how widely the level of wages varies in different countries.

" With regard to the material employed for the manufacture of implements of war, the price differences are obviously less great, though still quite appreciable. According to the *Monthly Bulletin* of the Permanent Office of the International Institute of Statistics, in 1931 a metric ton of cast iron was worth in Belgium $10, in France $9.64, in England $11.30 and in the United States $17.09. There are similar differences for other materials, such as coal.

" In addition to these elements, account must be taken of fiscal and social charges which enhance the cost price. An important British review in 1931, in comparing three great European countries in this respect, pointed out that, if the industry of one of these countries was considered as paying 100 in taxes and social charges, the other two countries paid respectively 64 and 17, 43 and 4.

" As the average price of labour and material is known in various countries and as the relationship of fiscal and social charges has been determined, it is obvious that learned calculations could be made and combined with a certain number of index figures, in the hope of ascertaining approximately what quantities of materials each country could respectively procure with the same amount of money.

" But such a calculation, which would be extremely complicated, would in the long run be entirely useless, as no account would be taken of the industrial output, which shows endless variations in different countries.

" The industries in which labour organisation has been brought to a high level and in which production is stabilised have low cost prices in spite of high wages ; it is this which enables countries with high wages to compete successfully in industrial production with countries having low wages. The degree of the industrial yield in each country cannot be exactly defined. The endless variety of the aspects of the economic and social life of the nations cannot be tied down by formulas or figures.

" If it is stated that one country has expended more on a certain branch of its industry than its neighbour, this statement, though perhaps correct, will be valueless, since the other country may, in spite of its smaller expenditure, have a much greater production in virtue of the greater output of its industry.

" The important point of comparison is not the expenditure but the effective output.

" It will be seen from the above remarks that the elements of cost vary to an infinite extent in different countries. Since the cost price characterises the expenditure, it will be seen that the latter gives no accurate idea at all of production.

" The inevitable conclusion, therefore, is that a comparison of expenditure on national defence cannot give even an approximate idea of the respective strength of the effectives or of the output of the administrative services or national defence industries.

" Expenditure is therefore not a criterion for comparing the armaments of different States.

" It is thus impossible to compare the armaments of various countries by furnishing expenditure statements.

" But by furnishing expenditure statements in successive years, it will be possible to estimate the course of development of expenditure by each State in respect of armaments.

" By comparing the figures for total expenditure and for the various categories of expenditure contained in the model statements in each State from year to year, it will be possible, after a number of years, to draw the curve of each country's expenditure and thus to measure the actual development of its armaments.

" Just as it is impossible to judge of the administration of an undertaking by examining a single balance-sheet, so it will be necessary to follow carefully the development of the expenditure statements and to interpret them correctly—that is to say, to take account of the changes in the military organisation and variations in the internal purchasing-power of money, in conjunction with price-index figures.

" The uniform statements of expenditure on the model drawn up by the Committee of Budgetary Experts and submitted for the approval of the Expenditure Commission, while

not permitting of any comparison, will make it possible to follow the evolution of the expenditure of each country on armaments in relation to its total expenditure and the various categories of expenditure, and will thus enable the development of the armaments themselves to be followed. "

12. Tribute to the President of the French Republic.

The PRESIDENT regretted to inform the Commission that, according to information just received, an attempt had been made upon the life of the President of the French Republic. He felt sure he was voicing the sentiments of his colleagues in expressing his indignation at this terrible crime and his sympathy with the French nation.

M. Charles DUMONT (France) thanked the President on behalf of the French delegation, and said he would transmit this message of sympathy to his Government.

Dr. Mary WOOLLEY (United States of America) associated herself with the President's remarks, and referred to the traditional bonds of friendship between the United States and the French Republic.

Colonel KARMANN (Germany) proposed that the Commission should express its sympathy with the French delegation by adjourning the meeting.

SEVENTH MEETING

Held on Monday, May 9th, 1932, at 3.30 p.m.

President: M. DE VASCONCELLOS.

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13. Tribute to the Memory of M. Paul Doumer and M. Albert Thomas.

The PRESIDENT felt sure he was interpreting the unanimous feeling of the Commission by participating in the mourning in which the French nation had been plunged by the tragic death of its revered President. He begged the French delegation to transmit to the Government of the Republic the condolences and the expression of heartfelt sympathy of all the members of the Commission. In these tragic hours the thoughts of all would go out to her who had been the faithful companion of a life full of virtue and devotion to the public cause.

M. JACOMET (France) thanked the President and said that the expressions of sympathy received from all sides by the French delegation would attenuate the grief it felt at the loss of the head of the State, who had been venerated by the whole nation.

The PRESIDENT was grieved to note that the blows of misfortune had not ceased to fall on France. The members of the Commission unanimously deplored the disappearance of another great Frenchman, M. Albert Thomas, who united all the qualities of mind and heart which make a man eminent. His indomitable will and great eloquence had been placed in the service of France and of humanity. M. Albert Thomas had devoted the last years of his life to an institution which was an essential part of the League of Nations. His untiring activity had made the International Labour Organisation an institution of world importance. The members of the Commission mourned the death of this great man and shared in the grief of the French delegation and of M. Albert Thomas' family.

M. JACOMET (France) thanked the President for his kind words of sympathy for the loss of a great Frenchman who was an honour alike to his country and to the world.

The meeting rose as an expression of sympathy.

EIGHTH MEETING

Held on Monday, May 9th, 1932, at 4 p.m.

President : M. DE VASCONCELLOS.

14. Documentation supplied by the Finnish Delegation : Application of the Principle of Simultaneity.

M. Hiitonen (Finland) stated that his delegation had supplied all the required documentation and waived the principle of simultaneity as regards the examination of this documentation as soon as all the countries represented in the Technical Committee had deposited their information.

15. Impossibility of comparing the Strength of Armaments of Various Countries on the Basis of the Figures of Defence Expenditure : *(Continuation of the discussion).*

Colonel Karmann (Germany) was heartily in agreement with the views expressed at the previous meeting by the French delegate, as he was also with Chapter 24 of the report by the Committee of Experts on Budgetary Questions. He drew special attention to a passage in Chapter 24, which stated that the impossibility of comparing the expenditure on armaments was " due in the first place to the fact that a number of goods and services required by the defence organisations are not paid for in money and are therefore not reflected in the budget expenditure ". Other expenditure under this heading included the railway service, the post-office service, etc., and he thought statistics should be prepared on this subject. He therefore made the following proposal.

> " Considering the fact that a certain number of goods and services required by the national defence organisations are not paid for in cash and therefore do not appear in the budget expenditure, the German delegation proposes the following :
>
> > " ' Countries utilising such services and goods shall fill up a corresponding table annexed to the Model Statement. The form and details of this table shall be fixed by the Technical Committee of the Commission.' "

M. Jacomet (France) said the French delegation would carefully consider the German proposal.

M. de Modzelewski (Poland) had not been present at the meeting when M. Jacomet had made his statement, as he had not thought this question would be raised. In view of the force of the arguments which usually characterised M. Jacomet's statements, M. de Modzelewski would very probably be willing to adopt the same view, but not until two months' time. This question had been discussed at the third meeting of the Commission. According to the minutes of that meeting, of which he read some passages, it had been decided that the principle of the impossibility of comparing budgetary expenditure in the various countries was only accepted provisionally, and would not even be discussed before the necessary premises had been thoroughly studied by the Commission. In spite of this decision, the discussion of this question had been reopened, and he was obliged to recall the objections he had raised against the premature adoption of a principle which, in the light of later discussions, might appear less absolute than it had seemed at first sight. In any case it was impossible to discuss the synthesis — that is to say, the principle — in question without having carefully examined the premises contained in the experts' report. He therefore hoped that the Commission would conform to its first decision and postpone the discussion of this point, which had been provisionally adopted, until the other questions raised in the experts' report had been considered. He reserved the right, however, to formulate certain objections if the Commission nevertheless decided to continue the discussion.

The President replied that the inconsistency noted by M. de Modzelewski between the decision taken at the third meeting and the procedure now adopted was only apparent. The discussion had been opened at the request of the French delegation, but this did not imply that the question would be finally settled, and was not contrary to the decision taken by the Commission that further discussion should take place in order to meet M. de Modzelewski's desire.

General BARBERIS (Italy) thought that, after what M. Jacomet had said, it was difficult to believe that any proof could be given as to the possibility of comparing the military strength of various States on the basis of their national defence expenditure. Colonel Karmann had rightly pointed out that it was not enough to adopt this principle, but that it should also be brought to the notice of all that the figures of national defence expenditure could not form a means of comparing the strength of the armaments of the various States. General Zugaro, in his minority report, had pointed out that persons reading the statements would automatically make comparisons between the different forms according to which armaments developed in various States. The form of the statements would lead everyone, despite themselves, to make such comparisons. In the *Monthly Bulletin of Statistics* of the League of Nations there were figures regarding unemployment in various countries. There was a footnote on one page of this *Bulletin* to the effect that these figures could not serve as a basis for comparison. In spite of that, anyone reading the statistics contained in the *Bulletin* could not help making such a comparison, especially as the footnote which gave a warning against such a tendency was printed in quite small letters and escaped attention. In order to avoid this disadvantage, the danger should perhaps be averted by drawing up statistical tables stating as clearly as possible that no comparison could be made between the figures relating to all the various States. The Italian delegation would submit a written proposal to that effect.

M. SANDLER (Sweden) thought the question was whether the Commission wished to accept the principle laid down by the Committee of Experts on Budgetary Questions. That principle should form the starting-point and not the final conclusion of the Commission's work. After M. Jacomet's very complete statement, it was hardly necessary to bring forward fresh arguments. He would therefore merely draw attention to the two aspects of the question which had been raised in the experts' report. On the one hand there was the question as to the comparison of national defence expenditure between different countries : that comparison had been held to be impossible. On the other hand there was the question of the comparison between the expenditure of the same State in different budget years. That comparison had been recognised not only as possible but as valuable. Indeed it was the object of the Model Statement. The Preparatory Commission had given its opinion on this question in its Final Report, which contained the following passage (page 21) : " At the sixth session the Commission accepted the principle, of the limitation of the total expenditure on land, sea and air forces. In adopting this principle, the Commission desired to emphasise that such limitation should be used for checking the growth of the armaments of each country, and not as a method of comparison between one country and another, since the cost and conditions of manufacture vary very much in different countries." Opinion on this question had therefore been unanimous both in the Preparatory Commission and in the Committee of Experts. M. Sandler hoped that the same unanimity would now be reached in the National Defence Expenditure Commission, while admitting the possibility of reverting to the question later, if that were found necessary. He himself agreed unreservedly with the conclusions of the Preparatory Commission and of the Committee of Experts on Budgetary Questions.

Colonel KARMANN (Germany) said he understood the reservations made by the Polish delegate. He had originally proposed that this question should be discussed both at the beginning and at the end of the Commission's work. He now suggested that this resolution should be discussed at the end, but he would be glad to accept the Italian resolution without delay.

Dr. Mary WOOLLEY (United States of America) thought the phraseology of this item of the agenda—namely, the "impossibility of comparing the strength of armaments on the basis of the figures of defence expenditure "—precluded the necessity of once more going over the ground which had been so thoroughly discussed by the Preparatory Commission. Those arguments had been so strong and had, moreover, been so ably supplemented by the French delegate that the question would appear to be clear. As the question had been raised, however, she would like to express the view of the United States Government. Her Government agreed with the idea of limitation of expenditure as a complementary method to direct limitation in order to prevent qualitative competition in armaments if, and when, quantitative competition had been checked. If her Government was under a misconception and there was indeed a tendency to make direct comparison of expenditure between various nations, her Government could not agree with such a method of reduction.

M. DE MODZELEWSKI (Poland) regretted that he was obliged to repeat the arguments which he had used at the third meeting. The report of the Committee of Experts formed the basis of the Commission's discussions. Every point, or almost every point, of that report dealt with the question now before the Commission. Logic might not always be necessary, but it was not possible to act entirely against the precepts of logic. That was what would happen, however, if it was desired to settle the question at the present meeting. This did not mean that he would not finally be convinced of the impossibility of comparing expenditure figures.

It was even quite possible that, during the discussion on the experts' report, his colleagues might find more than one argument which would convince him. In the meantime, the question should remain open until the premises had been discussed. He did not mean that, at the present time, the expenditure figures of two different countries could be usefully compared. He wondered, however, whether comparison would not be possible on certain points of detail. For instance, if a rifle cost Fr.10 in one country and Fr.20 in another, it might be said that the special conditions in each country did not enable any conclusion to be drawn from this difference in price. But if the same rifle cost Fr.200 in a third country, it was evident that there was a mistake in calculation and that a statement drawn up on the basis of such figures required revision. It was in such cases as this that a comparison might be useful.

The Polish delegation was convinced that the budget represented a picture of the armaments of a country, and that this picture was perhaps truer than that given by the figures of effectives or material. It did not wish to draw any immediate conclusions from this conviction as to the comparison of expenditure.

M. de Modzelewski had no difficulty in agreeing with M. Sandler's view on the value of comparing national defence expenditure figures in different years for the same country. Certain reservations should, however, be made on this subject in respect of special conditions which might apply to new countries whose national defence required more rapid development, if they were to reach the same level in this respect as other countries.

Lastly, he recognised the value of General Barberis' proposal. He thought a comparative table of expenditure should be drawn up. He also admitted that it might be indispensable to emphasise in this table the impossibility of drawing conclusions from a comparison between the figures. He would like, however, not to express an opinion on this point until the question of the impossibility of comparison had been settled, as previously decided at the end of the Commission's work.

M. PRENEN (Belgium) said the Belgian delegation was convinced of the justice of the reasons given by the Preparatory Commission and the Committee of Experts in support of their conclusion that a comparison of national defence expenditure figures between one country and another was impossible, but that such a comparison was possible for the same country at different periods. The Italian delegation had very wisely recalled General Zugaro's remarks on the necessity of emphasising this principle, so that no one should be unaware of it. It would appear that the Commission was unanimous on this point, except for the desire expressed by the Polish delegation to deal with the question at a second reading. The Belgian delegation had no objection to a second reading.

The PRESIDENT noted that the discussion on this point of the agenda was closed, except as regards the Italian delegation's proposal, which would be discussed as soon as the text had been distributed.

16. FORM AND CONTENTS OF THE MODEL STATEMENT.

1. *Meaning of the Term "Annual Expenditure".*

(a) *Meaning of the Term "Expenditure".*

The PRESIDENT reminded the Commission that this question had been dealt with in Chapter 5 of the Report by the Committee of Experts on Budgetary Questions; it was of very great importance from the point of view both of publicity and of limitation. After rejecting the criteria of budgetary credits voted by Parliament, the commitment to enter into expenditure, the actual delivery of goods or the performance of services, the ascertainment of liabilities after examining invoices, etc., the Committee recommended that, "for the purpose of the Disarmament Convention, 'expenditure' should be taken to mean either *cash disbursements* or, in the case of States which do not base their final accounts on such disbursements but which, on the other hand, record in these accounts *the issue of payment orders equivalent in practice to cash disbursements*, the issue of such payment orders".

It was for the Expenditure Commission to decide whether it wished to adopt this recommendation or to choose some other method. If the Commission approved the procedure recommended by the experts, it would have to refer the question to the Technical Committee as to what countries possess a system of accounts under which payment orders are equivalent in practice to actual cash disbursements.

M. JACOMET (France) realised the importance of this question. He pointed out that the Technical Committee was, in fact, entrusted with the examination of closed accounts and would therefore in any case be compelled to consider the question it was proposed to refer to it. It would necessarily have to ascertain whether, in a given system of accounts, payment orders could be regarded as equivalent to actual cash disbursements. It would, however, have difficulty in reporting on this question before it had completed the examination of the documents referred to it. In his opinion, therefore, it would be sufficient to draw attention to the question whether, in countries with an accounting system in which payment orders

were placed on the same basis as actual payments, the figures relating to such orders offered guarantees arising out of the auditing of the accounts by independent juridical organs such as the " Cours des Comptes ". It should be remembered that the aim of the draft Convention was to place the internal guarantees concerning the administration of public money on an international plane.

The PRESIDENT replied that the Technical Committee would naturally be free to decide as to the time most suitable for submitting its report on this question.

M. DE MODZELEWSKI (Poland) approved the recommendation of the Committee of Experts on Budgetary Questions and agreed that this question should be referred to the Technical Committee for examination in the light of information arising out of the examination of the budgets.

It was decided to refer the question to the Technical Committee in accordance with the President's proposal.

(b) " *Exercice* " *Accounts.*

The PRESIDENT pointed out that the question had been dealt with in the last part of Chapter 6 of the Report by the Committee of Experts on Budgetary Questions, which had shown the difficulty arising from the fact that, in many States, the budget " *exercice* " includes a supplementary period during which payments arising out of commitments entered into during the year to which the said supplementary period refers may be effected and charged to that " *exercice* ". To overcome this difficulty, the Committee had proposed that States should endeavour to reduce the additional periods to a few months only, in order as far as possible to standardise their respective systems. The Committee at the same time suggested, in view of the difficulty of reducing the additional periods, that the States might be requested to prepare separate accounts for the purposes of the Convention, showing only payments actually effected during the twelve months of the budget year. These accounts would be audited and published in the same manner as the final accounts.

The President thought these questions were highly technical and that it would be useful to refer them to the Technical Committee for examination, since the latter would be entitled to make any suggestions which it thought fit on this point and on other points relating to the presentation and auditing of the accounts of various countries in connection with the Convention to be concluded.

M. JACOMET (France) agreed that this question should be referred to the Technical Committee. He wished, however, to draw attention to a point in which confusion might be created by the text of the budgetary experts' report. It was clearly a weak point in the proposed system that no evidence of the limitation commitments and publicity in respect of national defence expenditure in accordance with the Convention could be provided, from the point of view either of limitation or of publicity, until 26 months after the beginning of the budgetary " *exercice* ". In order to overcome this difficulty, the Committee of Experts had proposed that countries with " *exercice* " accounts should be requested to furnish, a few months after the end of the budgetary year, a statement of the cash disbursements effected during the twelve months of the budgetary year, whatever the origin of these payments. Obviously this statement of payments would not have the same value as the final accounts as regards proof of the validity of the limitation and publicity of expenditure. Final accounts alone offered juridical guarantees through being audited by independent bodies entrusted with the supervision of the administration of public money. The statements of payments suggested by the Committee of Experts could only be regarded as supplementary information intended to reassure people and to give an official statement of the amount of the disbursements at the end of each year. The final accounts did not thereby lose their value as evidence. The following words, however, occurred at the end of Chapter 6 of the experts' report : " Since these additional accounts for the purpose of the Convention would not be established on the same bases as the final accounts, the latter would cease to be of value as evidence in the application of the Convention." Although he was one of the authors of the report, M. Jacomet felt bound to say that the presentation of supplementary accounts in no way decreased the value as evidence, from the point of view of limitation and publicity of expenditure, of the final accounts duly certified by the organs entrusted in the respective countries with the safeguarding of public credit. It was on these that the legal evidence as to limitation commitments must be based.

Colonel KARMANN (Germany) agreed with the President's view. He thought it fair to state, however, that, in his delegation's view, the additional periods should be abolished and statements should be based entirely on annual accounts, as was the case in England. He pointed out that under these technical questions might well be hidden important political issues.

M. DE MODZELEWSKI (Poland) emphasised the great importance of this question. It was, indeed, very important that information should be obtainable, a few months after the close of the budgetary year, as to the manner in which the States complied with their undertakings

under the Convention. Although the solution recommended by the experts was acceptable, it would nevertheless be desirable that the Technical Committee should examine the possibility of reducing as far as possible the additional periods. The difficulties would no doubt be very great and would consist in a struggle against the administration and bureaucracy, but the Commission should not be discouraged by these difficulties.

It was decided to refer the question to the Technical Committee.

The PRESIDENT took the opportunity to emphasise the value of this preliminary discussion, which might furnish the Technical Committee with the necessary indications for accomplishing its task.

(c) *Publicity of Estimated Expenditure on the Basis of Parliamentary Votes.*

The PRESIDENT pointed out that the question was dealt with in Chapter 22 of the Report by the Committee of Experts on Budgetary Questions, which had observed that the draft Convention did not mention the sending of returns of estimated expenditure at the beginning of each year, as the Preparatory Commission had contemplated at an earlier stage of its work. The Committee thought that, as limitation should apply to payments, a statement of estimated expenditure on the basis of parliamentary votes would have no value from the point of view of the Convention, but would rather tend to confusion. The Committee noted, however, that in most countries it was rather at the moment when Parliament was asked to vote credits than at the moment when closed accounts were produced that public attention was concentrated on the question of expenditure on armaments. The great importance of the parliamentary votes could not therefore be denied. The Committee assumed, however, that in every State the competent organs would take the necessary steps to explain publicly how the credits which had been asked for or voted might be reconciled with the limits fixed by the Convention. The President realised that, at the present stage of the Commission's work, it was hardly possible to take decisions on the subject of methods of publicity, and thought that the question should be referred to the Technical Committee.

General BARBERIS (Italy) agreed that the question should be referred to the Technical Committee. He drew attention to the last few lines of Chapter 22 of the experts' report regarding the reconciliation of credits asked for with the limits fixed by the Convention. As, however, it was not always easy to procure parliamentary documents, he suggested that the Commission should consider whether it would be desirable for the explanations in question to be communicated to the body supervising the execution of the Convention.

M. DE MODZELEWSKI (Poland) wished to point out that, if the budget credits greatly exceeded the limits fixed by the Convention, the effect would be disastrous. It was true that great difficulties arose from the fact that total credits were voted for several years or for an unlimited period, but these difficulties might be lessened by adopting the principle that every budget or every law involving expenditure on national defence should be forwarded to the supervisory organ to be set up by the Convention.

M. LOUNATCHARSKI (Union of Soviet Socialist Republics), though not opposed to this question being referred to the Technical Committee, felt obliged to agree with the arguments set out in Chapter 22 of the report by the Committee of Experts on Budgetary Questions. It was easier to check sums expended two or three years earlier by account-books than to analyse military expenditure in accordance with parliamentary votes. No value could, however, be attached to figures dating back three years when new credits had been voted for military preparations. The reason for wishing to supervise the military budget was probably that the Governments might have a tendency in some cases to transgress obligations to be assumed under the future Convention. If such attempts were made, it was hardly probable that the offending parties would be deterred by the prospect of seeing such transgressions unmasked at the end of three years. The Soviet delegation therefore thought that any control over military expenditure could be effective only if it referred to the credits voted. It was in favour of adopting the system recommended by Sub-Commission B and by the 1927 Report of the Committee of Experts on Budgetary Questions (document C.P.D.90)—namely, (1) communication to a supervisory body of the expenditure in question as early as possible after the budget is voted; (2) publication within the same time of information regarding expenditure effected during the budget year, such publication to take place at regular intervals to be determined when the question has been sufficiently studied.

M. JACOMET (France) recognised the soundness of the idea expressed by the Soviet delegate. It was essential to supervise credits which had been voted, since, whatever the legal significance of budgets might be, it was their amount that ultimately determined the amount of the payments to which limitation had reference. In its first report, the Committee of Experts had contemplated the sending of a statement of estimated expenditure. It had subsequently encountered serious technical difficulties, as in this case corrections of the statement of estimated expenditure would have to be sent whenever supplementary credits, transfers or cancellations of credits were voted. Moreover, he recognised that such statements would

bear no relation to limitation commitments. On account of these difficulties, the Committee had been more cautious in its second report. The French delegation was nevertheless disturbed at the length of the period of 26 months. Moreover, it would like the credits voted to be in as strict agreement as possible with the limits fixed by the Convention. In this connection, the Italian delegation's suggestion would appear to furnish the only practical solution. The French delegation went further than the Italian suggestion and had drawn up a definite proposal, which M. Jacomet read (document Conf. D./C.D.17) with the request that it should be referred to the Technical Committee. The text was as follows :

" Whereas proof of the fulfilment of undertakings in regard to publicity for limitation must be produced as soon as possible after the close of each financial year, and it is therefore necessary to seek all means calculated to shorten the time required for the production of statements of expenditure ;

" And whereas, notwithstanding all the steps that might be taken in this direction, the establishment of the final accounts of payments and statements of expenditure will take an appreciable time after the close of the accounting operations for the financial year ;

" And whereas, during the period that elapses between the passing of the budget and the production of the statements, it would nevertheless be essential to be able to judge of the extent to which Governments are taking account of their limitation undertakings in the financial efforts they devote to their armaments ;

" And whereas, irrespective of the legal significance of the budgets, it is the amount of authorisations of expenditure that ultimately determines the amount of the payments —that is to say, of the services rendered and deliveries of material ;

" And whereas it is, therefore, of the highest importance that all authorisations of expenditure, whatever their nature, should be known as soon as they are given ;

" And whereas, on the other hand, authorisations of annual expenditure may, in the case of certain States, bear no relation to the limits of expenditure fixed by the Convention, and it is therefore not proper to publish them in the form of the statements of expenditure provided for in proof of the observance of undertakings in regard to publicity or limitation ;

" And whereas authorisations of expenditure are not all given at once by Parliaments, but may be given at intervals throughout the period of the execution of the budget :

" The French delegation proposes that the following be added to Article 38 of the draft Convention :

" ' Each of the High Contracting Parties shall likewise communicate to the Secretary-General of the League of Nations, within a period of three months after the beginning of every budgetary year, the Finance Act and the documents forming the detailed budget of the various Ministries to whose credits national defence expenditure within the meaning of the draft Convention is charged ;

" ' If at that time the budgets have not received their final form, the draft thereof should in any case be sent within this time-limit, without prejudice to the subsequent despatch of the final budget which should take place immediately after it is passed ;

" ' Subsequently, any change made in the funds placed at the disposal of the various departments concerned in national defence (supplementary credits, carried-over credits, revenue of all kinds, etc.) should be brought to the knowledge of the competent body within a period of three months after the date on which such change was made.' "

Colonel KARMANN (Germany) thought there were many reasons in favour of the Russian proposal. He knew there were also some obstacles in the way of such a solution, but thought they could be overcome, and possibly the French proposal might be a means to this end.

The difficulties which arose in respect of publicity were not so great as those connected with limitation. He would like the Technical Committee to keep separate the questions of limitation and publicity.

It was decided to refer the question to the Technical Committee, together with the French delegation's proposal.

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

The PRESIDENT submitted to the Commission the text of the Italian delegation's proposal as follows :

" The Commission,

" While unanimously expressing immediately the principle of the impossibility of comparing the strength of armaments of various countries on the basis of expenditure figures,

" Recommends that this impossibility should be clearly emphasised in all the statistical publications of the League of Nations (and especially in the annual statistical tables in which the military expenditure of all Powers will be given in pounds, dollars and francs)."

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

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

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

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

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

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

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

It was decided to appoint a drafting committee, consisting of M. RADULESCO, M. DE MODZELEWSKI, General BARBERIS, M. SANDLER, M. PRENEN, M. LOUNATCHARSKI *and* Mr. BARNES, *to re-draft the Italian proposal.*

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

NINTH MEETING

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

President : M. DE VASCONCELLOS.

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

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

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

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

"The Commission on National Defence Expenditure expresses the opinion that :

"If the final examination of the question as to the comparability of the strength of armaments of all countries on the basis of national defence expenditure for any single year should prove conclusively the impossibility of making such a comparison,

"All international statistical publications concerning the military expenditure of the different Powers should indicate clearly this impossibility."

General BARBERIS (Italy) said that when he had put forward his resolution he had had the impression that the Commission unanimously accepted the principle that it was impossible to compare the armaments of different countries on the basis of their national defence expenditure. It subsequently appeared that there was some doubt on this point, which would have to be cleared up later. The drafting committee had therefore amended the initial clause so that it read : " If the final examination . . . should prove conclusively the impossibility of making such a comparison ".

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

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

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

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

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

Colonel ELLIS (India) agreed with the Norwegian delegate.

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

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

General TANCZOS (Hungary) agreed with the Italian delegate.

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

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

Colonel KARMANN (Germany) took the same view.

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

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

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

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

20. Meaning and Scope of the Term " Expenditure on National Defence ".

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

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

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

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

> " Secret funds intended in a disguised form for extraordinary expenditure on special preparations for war or an increase in armaments shall be excluded from the national budget.
>
> "In conformity with the above provision, all expenditure for the upkeep of the armed forces of each State shall be shown in a single chapter of the national budget ; their full publicity shall be ensured."

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

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

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

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

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

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

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

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

He therefore did not think the Commission could insist on all expenditure being included in the national defence budget, but suggested that this question should be referred to the Technical Committee with instructions to make as far-reaching proposals as possible for the inclusion of all national defence expenditure in a single budget.

The PRESIDENT suggested that the last paragraph of the proposal presented by the German delegation,[1] which read as follows, should be discussed at the same time :

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

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

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

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

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

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

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

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

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

Mr. BARNES (United Kingdom) said that, without wishing to discuss the French proposal, he would agree that the model statement should comprise all expenditure without exception. The form in which the budget was prepared was a purely academic question. This involved technical matters, and he saw no objection to its being considered by the Technical Committee. He referred to the statement on page 7 of the report by the Committee of Budgetary Experts that the classification of expenditure in the sub-heads of the budget accounts of different countries would involve so many political considerations that it was difficult for a Committee of Budgetary Experts to deal with it as it stood. This aspect might raise serious difficulties, on which his delegation might have to make reservations.

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

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

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

The President's proposal was adopted.

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[1] See sixth meeting.

(b) *Gross and Net Expenditure.*

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

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

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

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

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

From this point of view the Japanese delegation noted that the present wording of paragraph 5 of the draft annex was not quite satisfactory, and had reserved the right to propose a suitable amendment to the terms of that paragraph.

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

(c) *Subsidies, Loans and Participations.*

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

M. JACOMET (France) emphasised the importance of the question dealt with in Chapter 8 of the Experts' report from the point of view of publicity or limitation of armaments expenditure. In some countries the idea of joint undertakings was growing, and governed the relations of the State with private concerns, so that public bodies (States, districts, departments, municipalities) were authorised to participate in private industries. Such participation might assume various forms, such as the subscribing of capital, the grant of shares, the subsequent purchase of shares, the concession of the ownership or use of certain installations, the grant of rights and privileges in return for the right of control or a share in profits. There were even cases when the right to participate in this manner was laid down in the constitution

or by law. It was obvious that participations of this kind, in undertakings manufacturing war material in peace time, were in the nature of military expenditure. The same applied to participations aiming at permitting certain enterprises to equip themselves in peace time for the manufacture of war material immediately after mobilisation.

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

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

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

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

The Soviet delegate, however, thought that this effort could not be regarded as sufficient. Undertakings supplying war material to the State could be divided, according to the manner in which the capital was invested, into four categories : (1) undertakings coming under the State budget ; (2) autonomous State establishments ; (3) private undertakings in which the State participated either as a shareholder or by financing in some other way ; (4) private enterprises in which the State took no part. Moreover, there were countries which had no war industry in their territory and were obliged to import war material from abroad. In M. Lounatcharski's opinion, the experience of the world war showed that the capitalist countries could use any private industry for military purposes and obtain as high a yield as from a State enterprise. The utilisation of private undertakings by the State had become still easier at the present time, through the experience acquired in this sphere during the war and through the progress made in the work of preparing for industrial mobilisation, which had been carried out before the war in a very rudimentary manner. The difference between the four groups of industrial undertakings was, therefore, merely economic and not military. Only those countries which imported war material were in a special position and were placed somewhat at a disadvantage.

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

could be explained only by the desire that private capital should be drawn into the war industry. This placing of capital might also be stimulated by encouraging exports of armaments, by granting credits to foreign countries for military orders and so on.

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

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

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

TENTH MEETING

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

President : M. DE VASCONCELLOS.

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

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

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

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

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

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

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

> " The Chinese delegation is in general agreement with the views expressed in Chapter 7 of the Report of the Committee of Experts on Budgetary Questions in connection with the question of gross and net expenditure, with the exception of the last paragraph, which deals with cases where help is rendered to the civil population in emergencies by the defence services, and extra expenditure is thereby incurred which is sometimes repaid in part or in whole by the beneficiaries.

" Inasmuch as there may arise difficulties in the interpretation of these clauses when actual cases occur which call for their application, certain clarification and amplication seem to be necessary.

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

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

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

The proposal was adopted.

24. Meaning and Scope of the Term " Expenditure on National Defence " *(continuation of the discussion).*

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

The President read the following draft resolution submitted by the delegation of the Union of Soviet Socialist Republics [1]:

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

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

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

" The Commission considers it essential:

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

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

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

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

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

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

[1] See Minutes of the ninth meeting of the Committee.

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

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

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

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

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

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

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

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

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

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

(e) *Extra-Budgetary Expenditure: German Proposal.*

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

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

> " Considering the fact that a certain number of goods and services required by the national defence organisations are not paid for in cash and therefore do not appear in the budget expenditure, the German delegation proposes the following :
>
> > " Countries utilising such services and goods shall fill up a corresponding table annexed to the Model Statement. The form and details of this table shall be fixed by the Technical Committee of the Commission."

He drew attention to the intimate connection between the German proposal and the question of extra-budgetary expenditure. Perhaps the German delegate would give some explanations on that point.

Colonel KARMANN (Germany) explained that the German proposal did not refer to extra-budgetary expenditure properly so called, which must always be included in the Model Statement. Its aim was to fill a gap in the Experts' report, which did not mention services not paid for in cash. It was the figures relating to these services that the German delegation wished to have included in a special table annexed to the Model Statement.

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

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

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

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

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

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

(f) *Definitions in the Draft Annex not exhaustive.*

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

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

(g) *Carrying forward of Credits.*

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

General TANCZOS (Hungary) pointed out that the Committee of Experts had been requested by the Preparatory Commission to " determine the conditions under which the carrying forward of credits from one budgetary year to the next year or following years might be effected ". In the last paragraph of Chapter 16 of its report, the Committee of Experts concluded that the carrying forward of credits was in the first place a phenomenon of a juridical character, and that, from this point of view, it played no part in the machinery for the limitation of expenditure effected in the course of each year, to whatever year the credits used were referred. As the report by the Committee of Experts did not provide for a settlement of this question, the Hungarian delegate wished to draw attention to the fact that it would be desirable, from the point of view of publicity, to regulate the carrying forward of credits in as uniform a manner as possible. By such a settlement publicity would become more clearly defined. It was evident that, in cases where the carrying forward of credits from one year to another were possible without fresh legislative authorisation, there could never be complete publicity by means of

closed accounts showing credits actually used. That was true, in particular, in cases where the carrying forward of credits might be effected over a number of years without legislative authorisation. In this way, considerable reserves could be accumulated and utilised at a given moment without an account being rendered of the utilisation of balances of credits over several years until a later date and possibly even after the lapse of a number of years. The Hungarian delegation therefore thought the Technical Committee should be asked to investigate the question whether a settlement could be found which would guarantee equal conditions to all States in respect of the limitation and publicity of budgets from the point of view also of the carrying forward of credits.

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

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

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

M. PIPINÉLIS (Greece) drew attention to a point of particular importance to his country. The question of the carrying forward of credits lost its importance in view of the fact that the problem of the variations in expenditure from one year to another had been examined in a special chapter of the Experts' report—namely, Chapter 17. In that chapter, the Committee of Experts had reached the conclusion that a certain measure of elasticity should be introduced in fixing the limits of expenditure of the contracting parties. For this purpose it had recommended a system sufficiently elastic to take into account variations which were normally possible, while at the same time offering the necessary guarantees as to the possibility of accumulating reserves which might be used in a given year. The Hellenic delegation would not like the examination of this question by the Technical Committee to lead to the adoption of a more rigid system in respect of the carrying forward of credits, which would oblige States to reform their budgetary methods and would thus impose on the financial departments of the various States a burden which, under existing conditions, could not be borne.

Colonel KARMANN (Germany) pointed out that the Greek delegate had just raised the most important question of the entire problem of limitation—namely, the question of transfers, which was dealt with by the Committee in Chapter 17. The Commission was at this moment dealing with the question of the carrying forward of credits, which was related more particularly to publicity, while the question of transfers concerned exclusively the problem of limitation, with which the Expenditure Commission could not deal at the present moment. The German delegate agreed entirely with the view expressed by the French delegate.

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

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

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

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

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

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

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

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

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

The Commission decided to refer the question of Tables C, D, E and F appended to the Model Statement to the Technical Committee.

25. Classification of Expenditure on National Defence.

(a) *The Model Statement.*

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

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

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

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

(b) *Changes in Appropriation of Funds.*

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

ELEVENTH MEETING

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

President: M. DE VASCONCELLOS.

26. Classification of Expenditure on National Defence (*continuation*).

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

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

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

Viscount Mushakoji (Japan) agreed with the delegate of India.

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

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

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

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

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

(d) *Definitions in the Draft Annex not exhaustive.*

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

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

The PRESIDENT pointed out that the Preparatory Commission had instructed the Committee of Experts on Budgetary Questions to examine the possibility of a separate limitation of expenditure on land, naval and air forces (paragraph 177 of the Preparatory Commission's report). The Committee of Experts had reached the conclusion that there was no objection, from a technical point of view, to a separate limitation of the total expenditure relating to each of the three arms. Under the decision taken by the General Commission, the question of a limitation of the special heads had been referred to the Expenditure Commission, as would be seen by the co-ordination table (document Conf.D.102, page 22), although the actual principle of the limitation of armaments had been reserved for the General Commission. The President requested the Expenditure Commission to decide whether it thought fit to open a discussion immediately on the question of the separation of expenditure for the three forces. He reminded the Commission that the Norwegian delegate had made a proposal on this subject during the general discussion in the plenary meetings of the Conference (document Conf.D.99, page 51, paragraph 2).

M. PERNE (Yugoslavia) pointed out that in adopting Article 29 of the draft Convention, under which " the total annual expenditure of each of the High Contracting Parties on his land, sea and air forces and formations organised on a military basis shall be limited to the figure laid down for such Party ", the Preparatory Commission had left unsettled the question whether it was desirable to limit separately the expenditure relating to each of these three forces. As a practical and provisional solution, it had been decided to instruct the Committee of Experts to " examine the possibility of a separate limitation of expenditure on land, naval

and air forces ". The Committee of Experts, while recognising the difficulties which would be encountered in making a detailed differentiation between the expenditure on the three kinds of forces, had nevertheless settled the question in the affirmative. The Yugoslav delegation wished to point out that it could not agree with this point of view. The Yugoslav delegation was leaving on one side the political advantages or disadvantages of a separate limitation and was dealing only with the technical aspect of the problem. Yugoslavia had only one Ministry of National Defence. When the Model Statement had had to be filled in, the Yugoslav Government had encountered considerable accountancy difficulties in discriminating between expenditure with a view to dividing it up among the three forces. The Yugoslav delegation was therefore of opinion that a separate limitation of the forces was not advisable. It hoped that the Technical Committee would take its remarks into consideration.

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

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

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

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

Lastly, a distinction should be made between countries which had long ago stabilised their system of national defence and possessed stocks which had been normally constituted and countries which, on account of special circumstances, had not yet established equilibrium between the various categories of expenditure and had not had the time nor possibility to adapt their armaments to their new conditions of existence. These countries were obliged, in accordance with the circumstances, to concentrate their activities in regard to armaments at one time on one force and at another on other forces. The proportion between the expenditure relating to each of these categories varied therefore from one year to another. If the principle of separate limitation were adopted, countries in this position would be at a disadvantage as compared with countries whose military organisation was complete.

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

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

M. HIITONEN (Finland) pointed out that the Committee of Experts on Budgetary Questions referred expressly in its report to the separate limitation of the total expenditure on each of the forces. The objection might be raised that it was premature to speak of the separation of expenditure before the main question of budgetary limitation had been decided, but he did not wish to prolong the discussion by purely formal considerations. The aspect of the question varied, according to whether the aim was publicity or limitation or even the reduction of national defence expenditure. If it were only a question of publicity, the objections which might be raised against separation were of a purely technical character. The small States which had only one Ministry of National Defence and only one budget for the total defence expenditure would encounter difficulties which the Committee of Experts was aware of, but did not consider insurmountable. It was possible that the accountancy problem involved in this

case could easily be solved in theory. In practice, it was somewhat complicated in view of the overlapping of all the branches of the military administration in the countries in question and of the extremely small staff at the disposal of the accountancy departments of these countries. Nevertheless, it was certain that all these countries, including Finland, would do all in their power to overcome these technical difficulties and thus to help in the work of peace.

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

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

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

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

M. SANDLER (Sweden) pointed out that Chapter 13 of the Experts' report did not aim merely at the separation of the total expenditure on the three forces, but also at the possibility of isolating the categories of war-material. In this connection, he recalled that there was a Swedish proposal regarding the limitation of the materials of the air forces (document Conf.D.110). This proposal had not been referred to the Expenditure Commission; on the other hand, a Norwegian proposal, which appeared in Point 10 of the Co-ordination Table [1], had been referred to the Commission. The question of budgetary limitation was not on the agenda of the Expenditure Commission; it had been reserved for the General Commission. He did not ask that the Swedish proposal should be discussed; he merely drew attention to the importance of the last paragraph in Chapter 13 of the Experts' report, which stated that " the Committee had to examine the possibility of isolating the heading relating to air war material. It came to the conclusion that each of these three elements can, in general, be isolated even more closely than the total expenditure on each of the three forces ".

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

[1] Document Conf. D.102.

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

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

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

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

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

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

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

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

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

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

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

Mr. LYON (United Kingdom) understood that M. Jacomet proposed to refer the general question under Chapter 13 to the Technical Committee. He agreed with this view. He asked, however, whether this examination was to be confined to the question whether the Model Statement was a practical instrument for purposes of publicity only or also for limitation, and whether the latter aspect was to be excluded from the work of the Technical Committee.

M. RADULESCO (Roumania), Chairman of the Technical Committee, said that the question contained in Chapter 13 had two aspects: in the first place a political aspect, which did not concern the Expenditure Commission, and in the second place a technical aspect. The latter could be approached either from a theoretical or a practical point of view. If the Commission considered the technical aspect only from a theoretical point of view, no progress would be made. The object of the Technical Committee must therefore be to consider the question from a practical point of view. For this purpose it had drawn up a memorandum (document Conf.D./C.D./C.T.32(1)) for its own use, as a guide in examining the documents provided by the various Governments. The portion of the memorandum referring to the Model Statement was divided into two parts : (1) universality of the expenditure, and (2) classification of the expenditure. Under the latter heading the first question was :

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

" (*a*) Land, naval and air forces ;
" (*b*) Armed forces and formations organised on a military basis ;
" (*c*) Forces stationed at home and forces stationed overseas ;
" (*d*) Heads I to IV ;
" (*e*) Subheads A to N ?

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

This was followed by question 2 :

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

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

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

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

It was decided to adjourn the discussion.

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

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

This proposal was adopted.

27. RECONCILIATION TABLES. DEROGATIONS. PROPOSAL BY THE GERMAN DELEGATION.

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

He reminded the Commission that at a previous meeting[1] the German delegation had submitted the following proposal :

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

[1] See page 18.

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

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

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

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

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

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

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

TWELFTH MEETING.

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

President: M. DE VASCONCELLOS.

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28. DOCUMENTATION TO BE SUPPLIED BY PORTUGAL.

M. DE QUEVEDO (Portugal) said the closed accounts of the army and the replies to the questionnaire relating to the budgetary systems would be deposited by the Portuguese delegation during the day. The closed accounts of the navy would be deposited shortly. The Portuguese delegation stated that it waived the application of the principle of simultaneity.

29. CLASSIFICATION OF EXPENDITURE ON NATIONAL DEFENCE *(continuation)*.

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

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

(*a*) *Finnish Proposal* (document Conf.D./C.D.23).

" The Finnish delegation,

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

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

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

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

(*b*) *Polish Proposal* (document Conf.D./C.D.24).

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

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

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

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

M. Jacomet was further of opinion that the Technical Committee might be requested to extend its study to countries which, for reasons other than those mentioned by the Finnish delegation, encountered serious technical difficulties in accepting the principle of separate

limitation. From this point of view, the Polish proposal formed a useful supplement to the technical difficulties mentioned by the Finnish delegation. The Technical Committee might, after a very general examination, express its opinion whether the formula proposed by the Finnish delegation and supplemented by the Polish delegation was calculated to settle all the technical difficulties militating against the principle of separate limitation.

M. DE MODZELEWSKI (Poland) regarded the problem from two aspects—publicity and limitation. From the point of view of publicity, the technical difficulties, which were in inverse ratio to the number of ministries dealing with national defence, might ultimately be overcome. It was a question of accountancy. An examination of the Model Statement showed that a separation of expenditure was possible. It was for the Technical Committee to point out the method which should be followed in future in filling up the Model Statement and the form which should be given to that statement.

The technical difficulties were greater in respect of the separation of expenditure for the purpose of limitation. Two proposals had been submitted to the Commission. There was no doubt that the separate limitation of expenditure for each force would be extremely difficult for certain countries. The Polish delegation would therefore support the Finnish proposal. Nevertheless, this proposal did not cover all the countries which, for other reasons inherent in their special situation, were obliged to insist on the difficulty of separately limiting national defence expenditure in the future. There were countries which, in view of their special position immediately after the war, had been obliged to devote all their organising efforts to other spheres than military activity. They were therefore far behind countries having a military organisation of ancient date.

If all the States represented at the Conference were to be placed on an equal footing, this question of separate limitation must be regarded from a different aspect in the case of countries of which the military organisation in all its branches had not yet been completed. If the Polish proposal were added to the Finnish proposal, the two would cover all the exceptions which could equitably be made in favour of countries requiring greater liberty of action in respect of the management of their national defence expenditure for each of the three forces.

M. DE QUEVEDO (Portugal) thought the Finnish proposal was worthy of consideration, provided it did not imply that the countries in question must have only one Ministry of National Defence and a single military budget. It went without saying that, if budgetary limitation referred to the global figure of expenditure and not to each force separately, the Governments of the countries in question would have a much greater liberty of action in respect of the distribution of their resources between the different forces. The Finnish proposal was of special importance for countries which, like Portugal, had no special budget for naval aviation and military aviation. Subject to the reservation already mentioned, M. de Quevedo supported the Finnish proposal and approved, in particular, the principle expressed in the first two paragraphs of the proposal.

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

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

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

M. LOUNATCHARSKI (Union of Soviet Socialist Republics) pointed out that the Finnish proposal, and more particularly the Polish proposal, went beyond the technical sphere and had a definitely political character. The Polish proposal set on one side the question of disarmament for certain States and spoke of the normal and harmonious development of national defence. The Soviet delegation was of opinion that it would be inadvisable to express such principles on behalf of the Commission.

M. LANGE (Norway) expressed the sympathy of the Norwegian delegation for a proposal emanating from a country to which Norway was bound by ties of age-long friendship. He would have been glad to be able to support this proposal, which was justified in theory. It was true that the principle of the limitation of expenditure was calculated in future to give greater elasticity to the systems of national defence than the principle of quantitative or even qualitative limitation. Unfortunately, this stage had not yet been reached. It was only when the disarmament question had been definitely settled and when the international community would be really governed by the conditions laid down in the Covenant that the principle expressed by the Finnish and Polish delegations could be applied.

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

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

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

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

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

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

M. LIANG (China) was in favour of the Finnish proposal. He did not quite agree with the Norwegian delegate as to the necessity of suppressing the reference to the development of the military organisation. Some countries had not fully developed their armaments and should not be prejudiced in this respect by attending the Disarmament Conference. This was, however, a political question. In general, he thought that direct disarmament was a more effective method than the limitation of expenditure. Direct limitation was feasible, but it was impossible to prevent countries from using their financial resources for some other purpose than that for which they were originally intended. He thought that separation of expenditure was impossible except for publicity purposes.

M. DE QUEVEDO (Portugal) thought the Polish proposal was worthy of consideration, as it mentioned special characteristics for determining those States for which separate limitation of national defence expenditure would offer difficulties. With the same reservations as those expressed by the Norwegian delegate in respect of the preamble, the Portuguese delegation supported the Polish proposal. It also supported the proposal made by the French and British delegates to refer the question to the Technical Committee.

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

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

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

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

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

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

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

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

system and that, in other cases, it was impossible unless considerable changes were made in the national accountancy system. Only then would it be possible to examine the question whether the limitation of expenditure separately for each of the three forces was really possible.

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

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

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

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

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

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

The President's point of view was adopted.

30. DATE OF DESPATCH OF RETURNS. FINAL ACCOUNTS.

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

During the previous discussion in the Commission, several delegates had urged that the information to be supplied in future by the Governments should be despatched and examined as rapidly as possible. The French delegation had made a detailed proposal on this subject (document Conf.D./C.D.17)[1] which had been referred to the Technical Committee.

In this connection, the President wished to draw the attention of the Commission to the last paragraph in Chapter 23 of the Experts' report, which stated that " it will not be possible to bring about a limitation of armaments without considerable effort on the part of the contracting parties, and to some extent an effort must no doubt be made even in regard to systems of accounting ".

[1] See page 28.

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

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

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

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

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

M. JACOMET (France) was in entire agreement with the first part of the Hungarian delegation's proposal. There must be absolute reciprocity of obligations after the Convention had been signed, and all signatory States must present documents of equal value as evidence and within the same time-limits. Responsibility for delay must not, however, be thrown entirely on the *exercice* system of accountancy. There were countries with annual accounts (*comptabilité de gestion*) in which the delay in producing the closed accounts was equally long. It would be extremely difficult to demand that all countries should reduce their additional periods.

M. Jacomet felt that the remedy would be found in the system which he had already had occasion to explain to the Technical Committee and to the Expenditure Commission. The period of twenty-six months was certainly much too long. The possibility had therefore been contemplated of giving some reassurance, until such time as the limitation of expenditure could be legally proved by the submission of the Model Statement extracted from the duly audited closed accounts. In the first place, there was the French proposal which had recently been submitted, and which provided for the despatch of the budget of each country and of all the laws authorising national defence expenditure to the organ entrusted with the execution of the Convention. In this way, it would be possible to ascertain to what extent the votes took into account the limits fixed by the Convention.

As a second means of giving reassurances, it was suggested that, immediately after the end of the calendar year, the States should supply a statement of cash disbursements on national defence during the year. In countries with a system of annual accounts, such a statement could be very easily and rapidly drawn up. In countries with the *exercice* system, the difficulties would be greater. Nevertheless, even in these countries it would be possible to supply a statement of annual disbursements fairly rapidly. As a rule, the paying departments kept annual accounts. It would be sufficient to ask that department to furnish a statement of disbursements on national defence during twelve months. There was no doubt that over a period of several years the amount of the annual disbursements would correspond almost exactly to the total *exercice* payments.

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

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

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

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

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

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

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

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

THIRTEENTH MEETING

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

President: M. DE VASCONCELLOS.

31. Deposit of the Documentation supplied by Belgium.

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

32. Article 33 of the Draft Convention.

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

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

The Committee of Experts on Budgetary Questions, in its report, came to the following conclusion:

> "... after close enquiry and discussion, the Committee (which is of opinion that it has arrived at satisfactory results in regard to Article 38 of the Convention by submitting a Model Statement with from eight to twelve subheads) has reluctantly come to the conclusion that it cannot recommend any method of detailed publicity by categories of materials."

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

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

He proposed the following text:

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

M. Lounatcharski (Union of Soviet Socialist Republics) pointed out that, for the reasons which he had already given in his speech on May 11th[1], the Soviet delegation thought it necessary that the information communicated to the international control organ should also include returns regarding armaments and war material manufactured in the territory of a given State, either by private industry or by State industry, and that these returns should include armaments and material manufactured under orders from foreign countries or merely for export. These considerations were naturally related to the Soviet proposal regarding private capital invested in war industry; but it was necessary to emphasise the consequences arising from that proposal as applied to Chapter 19 of the report by the Experts on Budgetary Questions.

The Soviet delegation, moreover, thought it necessary to extend Article 33 of the draft Convention to aircraft, engines and other devices and material of military aviation. It also agreed with the proposal submitted by the German delegate to the Preparatory Commission (Report by the Commission, Section 201, document C.690.M.289.1930.IX), that the information submitted should express, not only the cost of production, but also the quantity of material manufactured. For that purpose, the information submitted should be accompanied by a specification of the war material to which it referred.

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

> "1. *Add* in the first paragraph of the Article the words: '... and air' after the word 'sea'.
>
> "2. *Add* a further paragraph worded as follows to the end of the article:
>
> "'Publicity must include not only the cost of production of manufactured material but also the quantity expressed in numbers and categories.'"

[1] See Minutes of the ninth meeting.

General TANCZOS (Hungary) recalled the Hungarian delegation's statements at the meeting of May 11th[1]. For reasons explained at the time, the Hungarian delegation was not in a position to define its attitude towards the questions raised in Article 33 until the competent Commissions had taken a decision of principle on the question of the combined application of direct and indirect limitation and on the problem of publicity. For these reasons, and in the general interest, the Hungarian delegation proposed not to continue the discussion on Article 33 of the draft Convention until a definite solution had been found by the General Commission and the Land Commission.

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

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

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

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

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

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

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

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

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

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

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

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

[1] See Minutes of the ninth meeting.

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

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

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

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

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

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

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

34. "VIREMENT" BETWEEN THE LIMITS OF THE THREE FORCES.

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

The President's proposal was adopted.

35. FIXING OF LIMITS SO AS TO ALLOW FOR VARIATIONS IN EXPENDITURE FROM ONE YEAR TO ANOTHER.

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

> "The German delegation are of opinion that the numerous deviations from the solid basis of the gold standard which have recently occurred are going to bring about such a decisive and unforeseen change in purchasing power that, for the time being, the method of financial limitation cannot be used as an effective measure of disarmament. Under the present economic and monetary circumstances, the application of this method would give rise to continual derogations which would seriously interfere with the steady advance of the process of contractual disarmament. Moreover, the establishment of a common plan for the financial limitation would be connected with extraordinary difficulties owing to the great differences which are at present existing in the various countries as to the stocks of material in hand. On the other hand, regard must be had to the fact that any really effective direct disarmament would be automatically accompanied by the indispensable decrease of the heavy financial burdens under which the nations are suffering owing to the exaggerated level of armaments."

Subject to this declaration, the German delegate would be glad to take part in the discussion on Article 29 regarding total limitation, provided the special limitation laid down in Articles 10 and 24 were not discussed either from the technical or political point of view.

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

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

"Each of the High Contracting Parties undertakes:

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

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

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

(*a*) Countries which have comparatively small national defence budgets, and

(*b*) Countries which purchase abroad a considerable part of their war material—*i.e.*, non-industrial countries—or the raw materials required for the production of this war material.

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

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

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

The President concluded his statement by reminding the Commission that the Greek delegate had alluded to this question at a previous meeting[1].

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

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

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[1] See Minutes of the tenth meeting.

36. Fluctuations in the Purchasing Power of Various Currencies.

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

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

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

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

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

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

M. Sandler (Sweden) made the following statement :

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

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

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

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

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

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

It seems doubtful whether a better method of overcoming the difficulties of the new situation can be suggested than that already recommended in the draft of the budgetary experts. This draft suggests a special procedure for readjusting the limits to be fixed in the Convention. A country suffering from inflation may ask for a readjustment of its fixed limits on account of the decrease in the internal purchasing power. Each country may also ask for the readjustment of the figures of *another* country on account of an increase in the

It is therefore indispensable to make a special study, in countries which have abandoned the gold standard, as to the extent of fluctuations in internal prices as shown by price indices. This is a purely objective study.

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

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

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

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

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

Does not the fall in the price of raw materials in those countries counterbalance the cost of any increase in internal prices ?

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

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

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

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

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

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

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

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

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

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

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

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

It would do its best to study the question of fluctuations in the purchasing power of money, a question which was so much debated and so debatable in theory, but which in practice might form the subject of concrete conclusions. Two methods had been proposed for this study : the constitution of a special committee or reference to the Technical Committee.

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M. Radulesco was in favour of the second solution and was glad that the United Kingdom delegate had withdrawn his proposal to constitute a special committee. The Technical Committee would naturally take advantage of its right to call in competent persons for the examination of the theoretical aspects of the problem. The Committee's task would be to examine the question of the purchasing power of money from the point of view of the main object of the Disarmament Conference—namely, the conclusion of a definite contract between sixty Powers. It would do everything in its power to submit a clear, technical and accurate report. He wished, however, to point out that the report could only be submitted to the Commission at a somewhat late date.

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

37. Documentation relating to National Defence Expenditure supplied by Governments: Statement by the Chairman of the Technical Committee.

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

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

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

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

FOURTEENTH MEETING

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

President : M. DE VASCONCELLOS.

38. Statements by the Vice-Chairman and General Rapporteur of the Technical Committee on the Work and the Report[1] of that Committee.

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

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

[1] Document Conf.D.158 and *Addendum*.
[2] See document Conf.D.101.

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

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

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

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

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

The report itself was not submitted in the form of direct replies to the questionnaire referred to the Committee, as these replies were, in fact, only special aspects of the general technical problem of budgetary limitation. The Committee's conclusions were summarised in the 106 points set out in Chapter XXII of the report. He would give a few general explanations on the view which the Committee had taken of its task.

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

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

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

Speaking as Acting Chairman of the Technical Committee, Mr. Lyon drew the Commission's attention to the fact that the replies given in the report to the various questions were not always unanimous, and that reservations had been made by certain members in different parts of the report. He thought, however, that he was faithfully expressing the Committee's

sentiments when he said that the proposals for detailed publicity on the basis of Article 8 of the Covenant were a unanimous recommendation. On the question, however, of limitation of expenditure, divergent views had been expressed, not so much on the essential conditions of limitation as on the extent to which those conditions were or could be fulfilled. He felt he could say that the members of the Committee were more or less in agreement as to the technical conditions governing limitation. Some members, however, had pointed out that, at the present moment, some of those conditions were not fulfilled, and it would be wiser to wait a few years before taking a decision on the subject.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

" To expend funds is simultaneously or successively to authorise expenditure, to enter into and acknowledge commitments, in the last resort ; and chiefly, a universally understood term, it means to pay—that is, to transfer to creditors amounts representing the value of services rendered or goods delivered.

" We propose that you should take this final operation of settlement of expenditure and make it the legal basis of the Convention. Our choice is due to the cardinal consideration that, by limiting and making public the expenditure on armaments, we intend, so far as possible, to limit or make public the actual quantities of armaments purchased. Now, it is the payment which, as a general rule, is the operation of settling expenditure most nearly simultaneous with the rendering of services or the delivery of goods.

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

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

* * *

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

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

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

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

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

* * *

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

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

" *Article* 10*:* Limitation of annual expenditure on material for land armaments.
" *Article* 24*:* Limitation of annual expenditure on material for naval armaments.
" *Article* 29*:* Limitation of the total expenditure of each of the High Contracting Parties on armed forces and formations organised on a military basis.

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

" *Article* 33*:* Publicity of expenditure by categories of materials.
" *Article* 38*:* Publicity of total expenditure on national defence.

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

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

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

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

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

* * *

" Let us take first the articles of the draft Convention concerning limitation of expenditure —*i.e.*, Articles 10, 24 and 29. According to a note appended to the latter article, the Committee of Budgetary Experts was instructed to study the possibility of a distinct limitation of the expenditure on land, sea and air forces.

" The technical conditions necessary for giving effect to the various kinds of limitation laid down in the draft Convention would appear to be of two kinds : the technical conditions peculiar to each form of limitation proposed, and the general technical conditions essential for all the kinds of limitation suggested.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

" Juridical proof of observance of limitation undertakings therefore depends on a certain amount of publicity being given to authorisations of expenditure and on the existence of accounts which are subject to verification by higher supervisory bodies and are published

prior to or after such audit in forms and within periods which meet the requirements of the Convention. The Expenditure Commission will find in Chapters V and VI the reasoned opinions of the Committee and of certain of its members.

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

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

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

> " ' The Technical Committee considers that, if violent and at the same time very rapid changes affect the purchasing power of currencies, and if these changes are not universal and occur at different times and in a different measure for various countries, the system of limiting expenditure could no longer function.
>
> " ' But, if price fluctuations are not too violent, the Committee is of opinion that the " living system " which it recommends will allow of a re-adjustment of the limits that will enable the latter to retain their full contractual value.'

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

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

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

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

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

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

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

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

* * *

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

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

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

" As regards the publicity of expenditure contemplated in Article 38 of the draft Convention, the Expenditure Commission will find all the elements of a decision in Chapters XI and XVI as regards the actual form of the Model Statement by means of which this publicity could be achieved.

" The views expressed and the conclusions contained in the Technical Committee's report regarding the application of Article 38 are submitted unanimously.

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

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

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

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

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

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

* * *

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

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

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

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

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

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

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

* * *

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

" 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 *annalité* 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.

* * *

" 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.

* * *

" 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.

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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 [1] 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.[2] 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.

40. GENERAL DISCUSSION OF THE TECHNICAL COMMITTEE'S REPORT (Document Conf. D.158 and *Addendum*).

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.

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[1] Document C.T.160(1).

[2] Document Conf.D.158, page 231.

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.

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 ".[1] 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 effectives 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.

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[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 " controlability " 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 application of such an undertaking and the exercise of international supervision, and to this end was proceeding to reorganise the internal book-keeping 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.

The Technical Committee had made a second reservation to which the United Kingdom delegation attached great importance. It had said that a system of budgetary limitation could only be effective if a certain price stability was maintained. Mr. Carr trusted that the London Economic Conference would succeed in imparting this stability, but he would not at the present moment consider that the problem of prices as connected with budgetary limitation had been satisfactorily solved.

The United Kingdom delegate wished to add a few words on the procedure to be followed. The Technical Committee's report was being carefully studied by the competent departments of each Government. It was not for the Expenditure Commission but for the General Commission to take decisions of principle on the subject of this report. The Expenditure Commission should confine itself to seeing whether it had anything to add to the Technical Committee's work which would furnish a scientific basis for the decisions to be taken. Delegations which had not been represented in the Technical Committee might also have

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. PALMADE (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 coniciding 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.

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41. General Discussion of the Technical Committee's Report (document Conf. D.158 and *Addendum*) (*continuation*).

M. Moldenhauer (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 *exercice* 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

aimed at. The Commission should avoid going into details, seeing that its Technical Committee had supplied it with an admirable collection of documents giving all the necessary data. Each delegation should confine itself to expressing the special views which it wished to submit. The Commission's task should therefore be to draft a few articles intended to fill the gaps in the draft Convention submitted by the United Kingdom delegation.

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[1]. 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 ".[2] 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 *exercices*, 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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[1] See document Conf.D.158, Volume I, page 131.

[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.

43. General Discussion of the Technical Committee's Report (document Conf. D. 158 and *Addendum*) (*continuation*).

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 oversea 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

perfection. The United States delegation therefore sympathised with the view that the most promising method would be that of publicity. He believed this would not only be the wisest method but also the method which would give the speediest results.

If no unanimous decision could be adopted in the Commission, Admiral Hepburn would support the United Kingdom representative's proposal on the procedure to be followed.

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 experienced 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 Agreements of 1922 limiting the tonnage of capital ships was to increase cruisers and make them more powerful. The direct limitation of effectives 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 peoples 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 financi al 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 Entenet* 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 [1] 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

[1] See document Conf.D.158, page 214, paragraph 14.

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.

44. General Discussion of the Technical Committee's Report (document Conf. D.158 and *Addendum*) (*continuation*).

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 [1] 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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[1] See document Conf.D.158, page 131.

[2] Document C.4.M.4.1931.IX, page 70.

had, as Minister of the Budget, been obliged to reduce French military expenditure by 1½ 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 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.

NINETEENTH MEETING

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

President: M. DE VASCONCELLOS.

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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.

TWENTIETH MEETING

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

President : M. DE VASCONCELLOS.

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46. GENERAL DISCUSSION OF THE TECHNICAL COMMITTEE'S REPORT (document Conf. D.158 and *Addendum*) (*conclusion*).

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.

47. CONSIDERATION AND ADOPTION OF THE DRAFT REPORT OF THE NATIONAL DEFENCE EXPENDITURE COMMISSION TO THE GENERAL COMMISSION (document Conf.D./C.D.48, with *corrigendum*).

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 7 : " 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 Commission (document Conf.D.161).

DOCUMENTS OF THE NATIONAL DEFENCE EXPENDITURE COMMISSION.

Conf. D./C.D./Agenda 2.

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).

4. Examination of the Report of the Committee of Experts on Budgetary Questions (document C.182.1931.IX) :

   (*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.

Conf. D./C.D.1.(1).

REVISED LIST OF MEMBERS OF THE NATIONAL DEFENCE EXPENDITURE COMMISSION (FEBRUARY 27TH, 1932 — JUNE 3RD, 1933).

Country	Members	Substitutes
Abyssinia :	The Badjirondo ZELLEKA AGUEDEOU	
Afghanistan :	Lieut.-General Mohamed OMAR Khan	M. A. HUSEIN AZIZ Khan Captain MOHAMED ALI Khan Secretary : YUSUF Khan
Union of South Africa :	Major F. F. PIENAAR	
Albania :	M. Lec KURTI	
United States of America :	Dr. Mary E. WOOLLEY The Hon. Norman H. DAVIS Rear-Admiral A. J. HEPBURN General George S. SIMONDS	

Country	Members	Substitutes
Argentine Republic:	M. Enrique RUIZ GUIÑAZU	M. Luis A. PODESTÁ COSTA
Australia:	Mr. J. G. LATHAM, or Sir Granville de Laune RYRIE	Mr. F. G. SHEDDEN
Austria:	Colonel MORO	
Belgium:	M. Paul E. JANSON	M. PRENEN M. DAMIN
Bolivia:	M. A. COSTA DU RELS	M. A. OSTRIA-GUTIERREZ
Brazil:	M. Affonso Arinos DE MELLO FRANCO M. S. RIBEIRO	Captain Edmundo DE MACEDO SOARES E SILVA Commander A. RODRIGUES DE VASCONCELLOS
United Kingdom of Great Britain and Northern Ireland:	Sir John SIMON Mr. GRIEVE Mr. J. S. BARNES	Mr. K. LYON Mr. E. H. CARR
Bulgaria:	Colonel MARINOFF	
Canada:	Dr. W. A. RIDDELL Mr. L. B. PEARSON	Mr. P. E. RENAUD
Chile:	M. J. VALDÉS-MENDEVILLE	M. J. SAAVEDRA-AGÜERO
China:	M. LIOU Vontao	M. W. HSIEH General WANG Ho M. Lone LIANG General TCHENG Kai
Colombia:	M. A. J. RESTREPO	
Costa Rica:	M. V. FIGUEREDO-LORA	
Cuba:	M. C. DE ARMENTEROS	
Czechoslovakia:	General A. ELIÁS Major O. FARSKY	M. K. TRPÁK
Denmark:	M. W. BORBERG M. Alsing ANDERSEN	Vice-Admiral H. W. WENCK Captain A. C. C. SÖRENSEN
Dominican Republic:		
Egypt:		
Estonia:	M. A. SCHMIDT	Colonel R. TOMBERG
Finland:	M. K. E. P. HIITONEN M. R. HOLSTI	M. K. R. SWENTORZETSKI Colonel O. O. OLENIUS
France:	M. Paul REYNAUD M. GIGNOUX M. Charles DUMONT M. PALMADE	M. R. MASSIGLI M. MOYSSET M. L. AUBERT Comptroller-General JACOMET
Germany:	M. VON MOELLENDORFF M. MOLDENHAUER	M. WORBS Colonel KARMANN
Greece:	General A. MAZARAKIS AINIAN M. R. RAPHAËL	M. P. PIPINELIS M. A. CONTOUMAS
Guatemala:	M. J. MATOS	
Haiti:		
Honduras:		
Hungary:	Count A. APPONYI General G. TÁNCZOS M. J. PELÉNYI	M. JAKABB General G. DE SIEGLER M. SZASZ M. PORKOLAL Lieut.-Colonel E. SPANNER Colonel GALYASI
India:	Sir Henry WHEELER	The Rt. Hon. Sir Samuel HOARE His Highness the AGA KHAN Lieut.-Colonel S. G. V. ELLIS Mr. A. W. DUNTON
Iraq:		
Irish Free State:	Mr. J. J. HEARNE	Mr. S. LESTER

Country	Members	Substitutes
Italy:	Count Ugo CAVALLERO General L. BARBERIS	M. C. TUMEDEI M. E. CAMBI
Japan:	M. N. SATO	Viscount K. MUSHAKOJI General TATEKAWA Admiral W. KOMAKI M. S. ARAKAWA
Latvia:	M. J. FELDMANS	General A. KALEYS
Liberia:	M. A. SOTTILE	
Lithuania:	M. LIMAS M. P. KLIMAS	Colonel J. LANSKORONSKIS
Luxemburg:		
Mexico:	M. F. CASTILLO NAJERA	Colonel Othon LEÓN
Netherlands:	M. J. P. A. FRANÇOIS M. W. H. VLIEGEN	M. C. RINGELING
New Zealand:	Sir Thomas M. WILFORD	Mr. C. KNOWLES
Norway:	M. C. L. LANGE	M. E. COLBAN
Panama:	M. Narciso GARAY M. AMADOR	
Persia:	M. SÉPAHBODI Colonel Ali Khan RIAZI	M. MOTAMÉDY Captain M. A. MOAREFI
Peru:		
Poland:	M. J. DE MODZELEWSKI	M. Marjan ZAKRZEWSKI Experts : M. S. DYGAT Major B. MOKRZYCKI
Portugal:	M. Augusto DE VASCONCELLOS, or M. Vasco DE QUEVEDO	Professor J. Lobo D'AVILA LIMA
Roumania:	M. A. ZEUCEANO M. Savel RADULESCO	General Th. DUMITRESCO Colonel J. STOÏCESCO Lieut.-Colonel GOMOESCO
Sa'udi Arabia:	Sheikh HAFIZ WAHBA	M. E. DUSSAC
Siam:	Prince PRIDI	Luang BHADRAVADI Luang SIRIRAJ MAITRI
Spain:	M. G. FRANCO LÓPEZ M. Leopoldo PALACIOS	M. M. PEDROSO M. Pelayo GARCIA OLAY
Sweden:	M. R. J. SANDLER	M. N. R. WOHLIN M. V. A. J. BRUNSKOG
Switzerland:	Colonel G. DE LORIOL Colonel W. KISSLING	M. R. KÖNIG
Turkey:	Necmeddin SADIK Bey	Expert : Colonel NURI Bey
Union of Soviet Socialist Republics:	M. A. LOUNATCHARSKI M. S. VENTZOFF	M. F. GROBINE
Uruguay:	M. P. COSIO	M. E. E. BUERO
Venezuela:	M. L. G. CHACÍN ITRÍAGO	
Yugoslavia:	M. Z. MAZURANIC	M. I. PERNE Adviser: Major B. POPADITCH

Conf.D./C.D.2.

Geneva, March 11th, 1932.

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*) *Exercice* accounts (Chapter 6*b*) ;
   (*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.

3. Classification of this expenditure :

(*a*) The Model Statement (Chapter 2) ;
(*b*) Changes in the appropriation of funds (part of Chapter 3) ;
(*c*) Contents and classification of the subheads in the Model Statement (Chapter 11) ;
(*d*) Definitions in the draft annex not exhaustive (part of Chapter 12) ;
(*e*) Separation of expenditure for the three forces (Chapter 13) ;
(*f*) Tables A and B appended to the Model Statement (part of Chapter 20).

4. Concordance tables ; Derogations (Chapter 14 and Chapter 4).

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.182.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.

Conf.D./C.D.3.

Geneva, March 15th, 1932.

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 RADULESCO, 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.

Conf. D./C.D.8

Geneva, April 15th, 1932.

SUPPLEMENTARY INFORMATION REQUESTED BY THE TECHNICAL COMMITTEE. [1]

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.

Conf.D./C.D.9.

Geneva, April 19th, 1932.

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

[1] For particulars of the information requested by the Technical Committee, see document Conf. D./C.D.5, reproduced in the report of the Committee (document Conf.D.158), Volume I, page 234.

Conf.D./C.D.12.

Geneva, May 3rd, 1932.

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.7[1] (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.

Conf.D./C.D.47.

Geneva, May 29th, 1933.

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

STATEMENT BY THE RAPPORTEUR-GENERAL.

1. Terms of reference of the Expenditure Commission.
   Decision of the General Commission, dated March 8th, 1932.
   Resolution of the General Commission, dated July 23rd, 1932.

2. Work of the Expenditure Commission in the spring of 1932.
   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 :

   (1) 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 ;

   (2) 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 ;

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[1] See Report of the Technical Committee, Document Conf.D.158, volume I, page 236.

(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.

Conf.D./C.D.48.*

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,[1] 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).

4. Examination of the report of the Committee of Experts on Budgetary Questions (document C.182.M.69.1931.IX) :

(*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,[2] 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."

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* *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).

[2] See document Conf.D.136.(1) (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, [1] and the information sent by other States is incomplete. [2]

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.

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[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.

The Estonian, Greek and Latvian documentation was completed after the drafting of the Technical Committee's report.

[2] Abyssinia, Bolivia, Dominican Republic, Guatemala, Honduras, Iraq, Peru.

V. General Conclusions. -

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.

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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.

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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.

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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 Permament 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.

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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.

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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.

Date	Reference No. of document	Countries whose documentation has been examined by the Technical Committee
1932 : April 19th	Conf.D./C.D.10	United Kingdom and Switzerland
April 27th	,, 11	India
May 3rd	,, 13	France and Sweden
May 20th	,, 22	Denmark, Czechoslovakia, and Poland
May 25th	,, 25	Germany
May 28th	,, 28	Belgium
June 14th	,, 29	Italy
June 20th	,, 30	Irish Free State
June 22nd	,, 31	Netherlands and Union of South Africa
June 29th	,, 32	Norway
July 8th	,, 34	Roumania
July 12th	,, 35	Bulgaria
July 13th	,, 36	Japan and Union of Soviet Socialist Republics
July 15th	,, 37	Yugoslavia
September 14th	,, 38	Austria
September 17th	,, 39	Finland
September 23rd	,, 40	New Zealand
September 24th	,, 41	Australia
October 17th	,, 33(1)	Albania
November 7th	,, 42	Canada
December 8th	,, 43	Portugal
1933 : February 13th	,, 44	Spain
May 20th	,, 45	Greece
June 7th	,, 49	Latvia
June 10th	,, 50	Estonia
October 19th	,, 51	Lithuania
October 27th	,, 52	Mexico