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**CONFERENCE FOR THE REDUCTION AND LIMITATION
OF ARMAMENTS**

**NATIONAL DEFENCE EXPENDITURE
COMMISSION**

**REPORT
OF THE
TECHNICAL COMMITTEE**

Volume I

GENEVA, 1933.

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COVERING LETTER TO THE REPORT.

Geneva, April 8th, 1933.

Your Excellency,

I have the honour to forward to you herewith the Report of the Technical Committee set up by the National Defence Expenditure Commission on March 16th, 1932. This report was adopted on April 8th, 1933, the following members or substitute members being present:

M. ANDO (Japan),
Major-General BARBERIS (Italy),
M. MENDES GONÇALVES (Brazil),
M. HÄGGLÖF (replacing M. Sandler) (Sweden),
M. JACOMET (France),
Colonel KISSLING (Switzerland),
Mr. LYON (United Kingdom),
H.E. M. DE MODZELEWSKI (Poland),
Lieutenant-Colonel STRONG (United States of America),
M. WORBS (Germany).

You will find in the body of the report, and particularly at the end of Chapter XXII, the reservations to the text adopted made by certain members of the Committee.

I have the honour to be, etc.

(Signed) K. LYON,
Vice-President of the Technical Committee.

His Excellency M. A. DE VASCONCELLOS,
Chairman of the National Defence Expenditure
Commission of the Conference for the Reduction
and Limitation of Armaments, Geneva.

DEFINITIONS.

As financial terms are employed in very different senses in different countries, the Committee has felt called upon to adopt a certain number of standard definitions. These definitions are only intended to indicate the general meaning of the financial terms used in the present report. They cannot be regarded as capable of settling in themselves all difficulties of interpretation.

Financial or Budgetary Year.

The financial or budgetary year is the period of twelve months to which a budget relates. In some countries this period begins on January 1st, but in the majority it does not coincide with the calendar year.

Financial "Exercice".

The financial "exercice" is the period of execution of a budget. In some countries this period is twelve months, but in others it comprises, in addition to this period of twelve months, complementary periods granted for the completion of operations relating to the collection of revenue and the liquidation, "ordonnancement", and payment of expenditure in connection with services rendered in principle during the budgetary year.

Budgetary Unity.

Budgetary unity is the rule according to which all State receipts and expenditure must be included in a single general budget and a single general account.

Gross Accounts and Net Accounts.

By gross accounts are meant accounts drawn up on the principle that all revenue and all expenditure must be entered separately in the budget and accounts, without any deduction.

Net accounts are accounts drawn up on the principle that the budgets and accounts should show only the balance of revenue over expenditure—*i.e.*, the net revenue and the balance of expenditure over receipts: *i.e.*, net expenditure.

Division of Expenditure.

Budgetary division of expenditure consists in the more or less detailed classification of credits and expenditure either according to departments or according to the nature of the credit or expenditure, the public services being obliged to employ the amount authorised exclusively for the purpose explicitly laid down when the credit was granted.

"Virement".

"Virement" is the right granted to the public services, in virtue either of the accountancy law or of a special provision in the budget, to utilise a credit for a purpose other than that for which it was originally granted.

"Annalité".

"Annalité" is the rule whereby credits opened for the expenditure of each financial "exercice" cannot be employed in discharge of expenditure of another "exercice".

Carry-forward of Credits.

The carry-forward of credits consists in the right to utilise (*i.e.*, according to the different financial systems, to enter into commitments, to issue orders for payment, or to pay), after the end of the financial "exercice", credits granted during that "exercice" and not consumed on its expiration by the act whereby, according to the respective financial systems, a credit is consumed (*i.e.*, commitment, issue of an order for payment, or payment).

Authorisation of Commitments.

The authorisation of commitments is the right given to the services to enter into commitments during a financial year, subject to the condition that the payments in respect of these commitments can only be effected by virtue of a payment credit to be granted during the succeeding financial year or years.

Commitment.

This term has two acceptations, one in *law* and the other in *accountancy*.

In its *legal* acceptance, commitment in relation to expenditure consists in any act by a competent authority by which the State or any other public person binds itself to effect expenditure.

In the *accountancy* acceptance of the term, commitment consists in the entry in the books of the amount of a State debt or of any administrative decision which will involve a disbursement on the part of the State.

The entry of the amounts of these commitments in the books has the consequence of reducing the credits available—*i.e.*, of pledging the credits as and when these entries are made up to the total estimated amount of the said sums entered in the books. In addition to the debts created by commitments entered into in the course of a given year, there exist for the same year debts resulting from commitments of previous years, such as appointments of officials, leases, and long-term agreements, which have given rise to claims against the State extending over several years.

Liquidation.

The liquidation of expenditure connotes the legal examination of the validity of a claim against the State, the evaluation of the *amount* of such claim, and the recognition of the State's debt.

“ Ordonnancement ”.

The “ *ordonnancement* ” of an item of expenditure signifies the issue of an order for payment. This order for payment is addressed either directly to the creditors or to the Office responsible for making the payment or for issuing cheques in favour of creditors.

Payment.

The payment of expenditure is the act which discharges the State from its debt, either by the delivery to the creditor of the sum due to him, or by the placing of the amount of the said sum to the creditor's account in a banking institution, or, again, by the delivery of the sum to a third party, if the law recognises such delivery as discharging the debt.

Chapter I.

INTRODUCTION.

1. Committee's

Terms of

Reference.

The present report describes the work of the Technical Committee appointed on March 16th, 1932, by the National Defence Expenditure Commission to study the details of application of a system of publicity or limitation of expenditure on armaments.

The terms of reference laid down by the Expenditure Commission were as follows:

"(a) To study the documentation regarding national defence expenditure supplied in accordance with the decision of the League Council dated May 23rd, 1931 . . . ;¹

"(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.²

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

Subsequently, the General Commission's resolution dated July 23rd, 1932,³ known as the Beneš resolution, further defined the scope of the task assigned to the Committee, describing as follows the final aim of the proceedings of the Expenditure Commission and of its Technical Committee:

" . . . 2. 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 these 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."

This resolution shows the connection between the limitation and publicity of national defence expenditure and the questions of qualitative and quantitative disarmament dealt with by other organs of the Conference.

¹ By a circular letter from the Secretary-General of the League of Nations dated March 30th, 1931 (C.L.63.1931.IX), communicating this decision to Governments, the attention of the latter was directed to Chapter 4 of the Report of the Committee of Experts on Budgetary Questions, recommending the various States to fill in, by way of experiment, and before the opening of the Conference, the Model Statement framed by the experts. The documentary material received in reply to that circular letter before the setting-up of the Technical Committee is reproduced in the printed series "Particulars with regard to the position of armaments in the various countries".

² As will be seen from the Minutes of the Expenditure Commission, the questions referred, after discussion, to the Technical Committee cover practically all the points dealt with in the Report of the Experts on Budgetary Questions.

³ Document Conf.D.136.

2. Composition of the Committee.

The composition of the Technical Committee was as follows¹:

His Excellency M. Savel RADULESCO, *Chairman* (Roumania), Minister Plenipotentiary, Under-Secretary of State for Foreign Affairs, Vice-Chairman of the National Defence Expenditure Commission.

Mr. K. LYON, C.B.E., *Vice-Chairman* (United Kingdom), War Office.
Substitute: Mr. H. FITZ GERALD, M.C.

M. JACOMET (France), *Rapporteur-General*, Comptroller-General of the Army, former Chairman of the Committee of Experts on Budgetary Questions.

Substitutes: { Lt.-Col. STEHLE.
Capt. Louis PERILLIER.

M. WORBS (Germany), Counsellor at the Reich Ministry of Finance, former member of the Committee of Experts on Budgetary Questions.

Commander R. DE VASCONCELLOS (Brazil), former member of the Chamber of Deputies and Budget Rapporteur in the Brazilian Parliament.

Substitutes: { M. A. A. DE MELLO FRANCO.
M. Roberto MENDES GONÇALVES, Secretary of the Brazilian Legation at Berne.

The Hon. Norman DAVIS (United States of America), former Under-Secretary of State.

Substitutes: { Brigadier-General George S. SIMONDS.
Major James B. ORD.
Lt.-Col. Geo. V. STRONG.

M. Cesare TUMEDEI (Italy), Barrister-at-Law, Member of the Chamber of Deputies, former member of the Committee of Experts on Budgetary Questions.

Substitutes: { M. Hector CAMBI, G.O.;
M. Eugenio PETRUCCI, G.O.;
Major-General Luigi BARBERIS, Naval Engineers.

M. Shoji ARAKAWA² (Japan), Secretary of the Ministry of Finance

Substitute: M. Yoshiro ANDO, Secretary of Embassy.

His Excellency M. Jean DE MODZELEWSKI (Poland), Envoy Extraordinary and Minister Plenipotentiary, Member of the Supervisory Commission of the League of Nations.

Substitute: Major B. MOKRZYCKI.

His Excellency M. R. J. SANDLER (Sweden), Minister for Foreign Affairs.

Substitutes: { M. U. A. J. BRUNSKOG, Councillor, Chief of Section
in the Admiralty.
M. B. G. R. HÄGGLÖF, Secretary to the Swedish Delegation.

Colonel E. M. G. KISSLING (Switzerland), Secretary of the Federal Military Department.

Substitute: Colonel DE LORIOI.

M. F. GROBINE (Union of Soviet Socialist Republics), People's Commissariat for Military Affairs.

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, of the Financial Section and Economic Intelligence Service of the Secretariat.

¹ M. Worbs was obliged to interrupt his attendance at the Committee's meetings on September 12th, 1932. When he resumed attendance on January 31st, 1933, the Committee had begun the first reading of the draft report which it had drawn up meanwhile.

M. Grobine and the expert of United States nationality did not take part in the Committee's work after July 22nd, 1932; the latter, however, resumed his collaboration on April 3rd, 1933. M. Radulesco did not attend the meetings after October 20th, 1932.

² His Excellency Viscount K. MUSHAKOJI (Japan), Envoy Extraordinary and Minister Plenipotentiary, succeeded M. Arakawa as from September 28th, 1932.

**3. Summary of
Previous Work
on Limitation and
Publicity of
Expenditure.**

Before explaining the method of work adopted by the Committee and the results at which it has arrived, it will be well to recall the studies carried out and the decisions adopted previously in the domain of the publicity and limitation of national defence expenditure.

During the preparatory work of the Conference for the Reduction and Limitation of Armaments, important studies had been undertaken on this subject. The problem had already been broached in 1926-27 by the *Preparatory Commission* of the Conference which had referred the relevant questions for examination to *Sub-Committees A and B*, to the *Mixed Committee*, and, lastly, to the *Committee of Experts on Budgetary Questions* set up in November 1926, which submitted two successive reports, document C.P.D.40, dated March 17th, 1927, and document C.P.D.90, dated July 1st, 1927.

In the draft Convention framed by the Preparatory Commission and communicated in January 1931 to the States invited to the Conference (document C.687.M.288.1930.IX) the following articles relate to the publicity or limitation of national defence expenditure, as the case may be:

Article 10 (Limitation of the annual expenditure on material for land armaments).

Article 24 (Limitation of the annual expenditure on material for naval armaments).

Article 29 (Limitation of the total annual expenditure of each of the High Contracting Parties on its armed forces and formations organised on a military basis).

Article 33 (Publicity, by categories of materials, of expenditure on the upkeep, purchase and manufacture of land and sea war materials).

Article 38 (Publicity of the total expenditure on land, sea and air armaments).

The report of the Preparatory Commission (document C.690.M.289.1930.IX) accompanying the draft Convention contains important commentaries on each of the foregoing articles and also notes the reservations made by some of the States represented.

Moreover, the Preparatory Commission decided, in December 1930, to reconstitute the Committee of Experts on Budgetary Questions and instructed it to enquire into the means by which the publicity and limitation of expenditure laid down in the draft Convention could be carried out, paying special attention to:

- (a) The necessity for limiting all the expenditure in question;
- (b) The variety of ways in which budgets are presented and discussed in different countries;
- (c) The adjustment of the proposed method of limitation to possible fluctuations in the purchasing power of different currencies, especially with regard to the cost of war material;
- (d) The conditions in which credits for one financial year might be carried over to the following year or years.

The Committee of Experts had been requested, further, in connection with the application of Article 29, to enquire into the technical possibility of a separate limitation of the expenditure on land, sea and air forces. During two sessions held in December 1930 and February 1931, the Committee, as reconstituted, engaged in studies which resulted in the report reproduced in document C.182.M.69.1931.IX. In conformity with the Council decision of January 24th, 1931, the report of the Committee of Experts was communicated on March 30th following to all the Governments.

On March 8th, 1932, the General Commission of the Conference decided to refer the following questions to the National Defence Expenditure Commission with a request to deal with them without their having been previously discussed 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 by category of the expenditure on land and naval material).

3. Article 38 (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.

On the other hand, Articles 10 and 24 (Special limitation of expenditure on the material of land and naval armaments) have not been expressly referred to the Expenditure Commission; but, owing to the close connection between the subject-matter of these articles and the questions which it was instructed to deal with, the Committee was led to consider them in the course of its work.

**4. Information
requested
from States
by the Committee.**

By its resolution of March 16th, 1932, the Expenditure Commission requested all the delegations of States represented at the Conference to furnish the Technical Committee with the documentation which it required in order to accomplish its task.

At its first meetings, on March 17th and 18th, the Technical Committee endeavoured to define the nature of the documentation which it required. A list of the essential documents to be produced (document Conf.D./C.D.5)¹ was sent for this purpose to the various Governments on March 19th, with a request to forward the documentation to the Committee without delay and, if possible, before April 11th. The Expenditure Commission drew particular attention to the necessity for obtaining as complete information as possible on the budgetary systems in force in the various countries (preparation, presentation, adoption, execution of the budget and supervision of execution), and the Committee, at the Commission's request, drew up a special questionnaire which was also forwarded to the delegations (document Conf.D./C.D.6).²

**5. Scope of the
Committee's
Work.**

The Technical Committee's work, in conformity with the terms of reference received from the Expenditure Commission, comprised on the one hand the examination of the documentary material supplied by the States represented at the Conference and, on the other, in the light of this documentation, a study of the technical questions relating to limitation and publicity of national defence expenditure. The Committee also examined the various proposals submitted by the different delegations during the preliminary discussion which took place in the Expenditure Commission from May 6th to 26th, 1932.

While the immediate object of the Technical Committee's proceedings was to determine whether the Model Statement proposed by the Committee of Experts was a practical instrument for purposes of publicity and limitation, the examination of the questions referred to the Committee by the Expenditure Commission necessarily involved a fresh examination by it of the report of the Committee of Experts on Budgetary Questions, which report, moreover, the Expenditure Commission had adopted as the foundation for its work. The Technical Committee considered all the problems dealt with by the Budgetary Experts, but having a much wider field of investigation it was able, thanks to the abundant documentation at its disposal, to make a more complete study of the facts. This study led it to propose certain modifications in the conclusions of the experts. The Committee's report will also contain a large number of supplementary proposals. The Committee desires, however, to point out that it seemed to it premature, at the present stage of its work, and in the absence of a decision of principle regarding the limitation or publicity

¹ Annex 1.

² Annex 2.

of expenditure, to prepare a revised text of the "instructions" drawn up in the report of the Committee of Experts on Budgetary Questions.

6. Procedure. The point of view from which the Committee undertook the examination of the documentation of the different States is clearly shown by the following preamble to the Rules of Procedure adopted by the Committee on April 14th, 1932, and communicated to all the delegations represented at the Conference (document Conf.D./C.D.7):¹

"The purpose for which the Technical Committee, under its terms of reference, is called upon to examine the documents supplied by the various Governments concerning their expenditure on national defence is as follows:

"(i) *Generally.*

"To ascertain whether the Model Statement as drawn up by the Committee of Experts on Budgetary Questions (although not yet accepted by the Conference for the Reduction and Limitation of Armaments) is a practical instrument by means of which States can set out all the expenditure on national defence incurred by them in a given recent year.

"(ii) *In particular.*

With the above end in view, to ascertain:

"(a) Whether the statements of expenditure to be examined are compiled on a sufficiently uniform basis and whether the instructions and recommendations contained in the report of the Budgetary Experts, in particular those which concern the setting out of every item of expenditure on national defence and the classification of the items, have been followed.

"(b) What difficulties arising out of differences in budgetary systems or otherwise have been met with by States in filling up the Model Statement.

"(c) Whether the statements of expenditure to be examined are capable of verification either from the audited and published accounts of the State or from other authoritative documents.

"(d) Whether the relations between the figures given in the Model Statement and the figures shown in the accounts published by the State within the country are adequately explained in the reconciliation tables."

The procedure adopted by the Committee in order to accomplish this task may be summarised as follows:

The Committee based its work on the principle of the *simultaneous exchange of information*. It considered that, by forwarding the documents which they were requested to furnish, the States would provide unprecedented means of investigation into their national defence expenditure, and that hence it was logical and equitable that *all* the Powers should have deposited a complete set of documents before the various documents were examined. Subsequently, a large number of Powers, with a view to accelerating the Committee's work, agreed, however, in practice, to forgo the application of the rule of simultaneity, as far as they were concerned.

A sub-committee—consisting of M. SANDLER (Sweden) and M. KISSLING (Switzerland)—was instructed to examine the documentation submitted by the various countries, in order to ascertain whether it was complete and of a nature to enable the Committee to begin its examination.

The Rules of the Committee provided that, when the examination had begun, there should be a written stage, followed by an oral stage, in the procedure for each country. All the delegations to the Conference were informed that they could transmit to the Bureau of the Committee, within a period fixed by it (generally about twenty days), any observations which they desired to make on the information supplied. All these observations were subsequently classified by the Bureau of the Committee and forwarded to the Power

¹ Annex 3.

concerned. After the replies had been received from the latter and communicated to the members of the Committee, a discussion on the entire documentation took place in the Committee, in the presence of a delegate of the Power concerned. After this oral examination, a sub-committee of rapporteurs drew up, in agreement with the representative of the Power concerned, and on the basis of the documents examined, a " Summary " of the characteristics of its budgetary system and of the most important facts relating to its national defence expenditure.¹

Each of the summaries is divided into five chapters:

- A. Budgetary system.
- B. Identification of expenditure.
- C. Expenditure included in the Model Statement.
- D. Distribution of the expenditure between the tables, heads and sub-heads of the Model Statement.
- E. Tables annexed to the Model Statement.

The following members of the Committee acted as rapporteurs for these various chapters:

- A. M. JACOMET (France);
- B. M. WORBS (Germany), subsequently replaced by Mr. LYON (United Kingdom);
- C. M. SANDLER (Sweden);
- D. Mr. LYON (United Kingdom);
- E. General BARBERIS (Italy).

This procedure, which was laid down by the Technical Committee so as to permit of a thorough examination of the documents furnished by the Governments, met with some difficulties in practice. Certain Governments were only able to transmit their documents to the Committee after considerable delay and, further, the combined procedure (written and oral) in itself required a considerable time.

The procedure adopted had, however, the great advantage that all the special situations and outstanding features of each country were taken into consideration. During the examination of the documents, the Committee was in a position to note very many questions raised by the interpretation of the report of the Committee of Experts on Budgetary Questions and various difficulties encountered by the Governments in complying with the recommendations contained in this report.

The experience gained in the course of these examinations afforded the Committee a valuable basis of information which enabled it in October 1932 to begin a detailed study of the recommendations contained in the report of the Committee of Experts on Budgetary Questions and the various cognate proposals.

In addition to the rapporteurs mentioned above, the following members of the Committee were appointed rapporteurs on special subjects:

- M. ANDO (Japan) (acting as substitute for M. Arakawa)—(Article 33 of the draft Convention).
- M. KISSLING (Switzerland): Reconciliation tables.
- M. DE MODZELEWSKI (Poland): Publicity of estimates of expenditure on the basis of parliamentary votes. Date for sending in statements. Final accounts. Communication of certain laws and regulations relating to national defence.
- M. Eugenio PETRUCCI (Italy): Transfers between the limits of the three forces.
- M. SANDLER (Sweden): Fluctuation of the purchasing power of different currencies.

7. Nature of Present Report.

The Technical Committee now submits to the Expenditure Commission the conclusions arrived at.

It is regrettable from the point of view of the universality of its work that the Committee has not yet been able to examine the documents of all the countries represented at the Conference and it is therefore necessary to make all reservations regarding the application of the system of limitation and publicity to these countries. It must, however, be emphasised that among the nineteen countries whose documents

¹ These " Summaries " will be found in Volume II of the report.

were studied by the Committee—Belgium, United Kingdom, Czechoslovakia, Denmark, France, Germany, India, Irish Free State, Italy, Japan, Netherlands, Norway, Poland, Roumania, Sweden, Switzerland, United States of America, Union of Soviet Socialist Republics, Yugoslavia—are found almost all the great military Powers, and that, including the ten countries the examination of whose statements has been begun but not yet completed,¹ the Committee has been able to form an opinion regarding the position in twenty-nine States whose expenditure represents together about 90 per cent of the total expenditure of the world on national defence.

It may not be without interest to observe that the States whose documents have been found complete are distributed by continents as follows: Europe 22; Africa 1; Asia 2; America 2; Oceania 2.

The list of those which have sent no documents or whose documents are incomplete includes 7 countries in Europe, 3 in Africa, 5 in Asia and 16 in the American continent².

The Committee wishes to state that some documents supplied to it show certain omissions. These will be referred to in the course of the report. Although an enquiry on this extensive scale, in the course of which difficulties in securing information were experienced as a result mainly of the diversity of the national languages, necessitated more than a year's work, the Committee has naturally not been able to obtain full particulars of the practical working of the financial and administrative institutions of the various countries. It has, however, been able to secure the essential elements for preparing its report in accordance with the practical instructions given to it.

The Committee desires to tender its sincere thanks to all the Governments which co-operated in its work with the greatest good-will. Indeed, the production of the documents requested by the Technical Committee and the replies to the very large number of questions which it asked (in certain cases as many as 300 or 400) entailed very considerable material labour on the part of the various countries.

In order to accomplish its task, the Technical Committee has been in session almost continuously since its appointment on March 16th, 1932 (March 17th and 18th; from April 7th to July 28th; from September 15th to December 22nd, 1932; from January 10th to April 8th, 1933). It has held about 130 plenary meetings in addition to numerous meetings of its sub-committees. In order to be able to present its report at a date sufficiently early to enable the Expenditure Commission usefully to continue its work, the Committee has been obliged provisionally to discontinue the examination of the documents furnished by the Governments.

It intends to submit a subsequent report on the essential facts relating to countries the examination of whose documents is not yet completed and other countries which may subsequently send in their documents.

It should be pointed out in this connection that a number of States have not yet sent the Bureau of the Conference any particulars regarding their national defence expenditure. The Committee feels bound to draw the Expenditure Commission's attention to the necessity for appealing to the Governments of these countries in order to enable it to complete the work it has undertaken. The subsequent report mentioned above will indicate any modifications in the conclusions of the present report which an examination of the documents submitted may lead the Committee to propose.

¹ South Africa, Albania, Australia, Austria, Bulgaria, Canada, Finland, New Zealand, Portugal, Spain.

² A list of documents supplied by these latter countries is to be found in Annex 4.

Part I.

GENERAL PRINCIPLES

Chapter II.

WHAT IS TO BE UNDERSTOOD BY NATIONAL DEFENCE EXPENDITURE ?

1. General Considerations.

In order to determine the juridical basis of the Convention, the detailed application of which it was instructed to investigate, the Technical Committee deemed it necessary at the very outset of its enquiries to define as accurately as possible what was to be understood by national defence expenditure *for the purposes of the future Convention*.

In the modern world, the military strength of a country does not reside exclusively in the military formations which it has at its command in time of peace. The defence of its territory calls for the concentration, co-operation and utilisation of all the physical and moral forces of its people, of all branches of industry, of all means of transport, of all the nation's financial resources.

Such being the case, all expenditure incurred by a country for the purpose of promoting the physical, intellectual and moral education of the rising generation or of imbuing its citizens with respect for order and discipline increases its means of defence. All funds devoted to the improvement of the nation's equipment, to enhancing productive power, or to strengthening the State's financial system, have their bearing upon national defence.

Is it possible to ground a convention for publicity or limitation in the matter of national defence expenditure on such a comprehensive conception of national defence ? Is it possible to devise criteria sufficiently accurate to gauge the relative military value of each branch of national activity in the general economic life of a country ? The Technical Committee has been obliged to renounce all thought of assuming such a task and to limit the sphere of application of the future Convention to less elusive objects. True to the spirit in which the preparatory work for the Conference was carried out and in compliance more especially with the basic conceptions of the report of the Budgetary Experts, the Committee set itself a practical and attainable object. It has endeavoured to determine expenditure which, in its view, was incontestably of a specifically military character. It is this category of expenditure alone which the Committee proposes should be taken by the Conference as the juridical basis of the Convention.

The Committee is aware that such a conception is not without its arbitrary element. It has, on the other hand, the great advantage of defining with adequate precision the common obligations which the contracting parties are to be invited to accept and of eliminating any doubts which might exist as to what exactly the Convention is intended to cover.

**2. Attempt at a
Definition of
National Defence
Expenditure for
the Purposes
of the
Draft Convention.**

For the sake of clarity and with a view to defining the object of the Convention, the Committee considered the possibility of drawing up a definition of national defence expenditure.

In its opinion, it is the following definition which most clearly conveys the general conception emerging from the Committee's work:

"For the purposes of the Convention, national defence expenditure shall be deemed to be all expenditure necessitated or entailed by the creation, maintenance and training, in time of peace, of land, sea and air armed forces and formations organised on a military basis and by measures immediately connected with preparations for national mobilisation."

The Committee is, however, of opinion that, though this definition is valuable as a means of throwing the character of the future Convention into immediate relief, like all other definitions it lacks, taken alone, the precision necessary for determining the legal obligations of the signatory States. In practice, the interpretation of such a definition would give rise to endless disputes.

**3. Conventional
List of
National Defence
Expenditure.**

Like its predecessors, the Technical Committee considered that, in order to define more strictly the contractual obligations of the signatory States, it was necessary to draw up a conventional list of expenditure complying with the general definition formulated above and to be considered as national defence expenditure for the purposes of the future Convention.

The Technical Committee has taken advantage of the previous enquiries of the Committee of Budgetary Experts with regard both to actual military activities and their financial expression; it has made the utmost use of the voluminous documentation which it has had at its disposal, and, by a process of analysis, has endeavoured to ascertain what categories of expenditure are to be included within the sphere of application of the Convention. On this basis, it has compiled the list of this expenditure annexed to the present chapter (Appendix I).

The Committee has endeavoured to include in this list all expenditure which, in its opinion, is covered by the general definition formulated above. This enumeration cannot, however, be regarded as strictly limitative. It is indeed possible that, while the Convention remains in force, new services of a military character or new classes of war material may be created or invented. It is also conceivable that the terms used to describe the various classes of expenditure included in the list may not correspond to the terms normally employed in certain countries to denote services or war material already in existence.

The foregoing definition, the enumeration in a conventional list of expenditure to be regarded as national defence expenditure for the purposes of the Convention and, lastly, the "instructions" which the Committee proposes to draw up later, will make it possible to settle the questions of interpretation which might arise during the execution of the Convention.

Perusal of the list of national defence expenditure to be included in the Convention will suffice to show the specifically military character of the items enumerated. According to the conception embodied in the general definition given above, all expenditure included in the list is necessitated or entailed by the existence of armed forces and military formations in time of peace and by measures immediately connected with preparations for national mobilisation—that is to say, by the various measures taken in time of peace to facilitate the calling-up of effectives intended to supplement the armed forces of the peace-time establishment and to constitute the initial equipment of the mobilised units in all classes of material.

It is the duty of the Technical Committee, however, to draw the Expenditure Commission's attention to the manner in which it has distinguished between expenditure to be regarded as national defence expenditure within the meaning of the Convention and expenditure which, though capable of contributing in certain circumstances to the war strength of the various States, is not to be subjected either to publicity or limitation.

4. Line of Demarcation between Specifically Military Expenditure included in the Conventional List and Expenditure which, though of Military Importance, has not been so included.

The explanations given below on the manner in which this line of demarcation has been drawn relate to the following groups of expenditure:

- (a) Expenditure of a general nature;
- (b) Subsidies to private armaments undertakings;
- (c) Expenditure on preparations for industrial mobilisation;
- (d) Expenditure on pensions;
- (e) Expenditure on formations organised on a military basis;
- (f) Expenditure of certain associations;
- (g) Expenditure on services of a mixed character employed for both civil and military purposes.

(a) *Expenditure of a general nature.*

The modern State no longer confines itself to dispensing justice, to providing for the security of its territory, to maintaining order through the police and to the administration of national property. To an extent varying from country to country, its activities embrace the most varied forms of the nation's intellectual, economic, social and financial life. The State, for example, carries out works of general utility, facilitates the movements of persons and goods by maintaining means of communication and organising transport at prices fixed or approved by itself. Its influence is felt in the sphere of production as, for example, when it controls or regulates mining operations. It performs services of a commercial character by setting up institutions for the protection of trade and agriculture as well as by its Customs system. It takes action in social matters through the public health and relief organisations and also through the foundation of public welfare bodies. It directs the education of the rising generations. It must, lastly, procure the funds which this general activity entails, and the public finances are associated to a constantly increasing extent with the general development of national production and national wealth. These various manifestations of the part played by the State in the nation's intellectual, economic and social life—which are characteristic of the tendencies of the modern State—involve it in expenditure which may sometimes increase the nation's potential fighting strength.

Thus, State expenditure on the merchant marine (especially in countries with State-owned commercial lines),¹ expenditure on the development of civil aviation, on such major public works as railways, canals, roads, commercial ports, the constitution of stocks of imported raw materials and expenditure on the development of public education may all help to increase a country's potential military strength.

The Committee considered that, though such expenditure of a general nature might have a certain military value, it was impossible accurately to determine its relative worth. Such being the case, it decided not to include such items in its list of national defence expenditure. The decision not to include expenditure on civil aviation in this list can, however, be only provisional, since it is very closely related and, as it were, subordinate to the solutions ultimately to be adopted by the Conference in regard to the general problem of the regulation of civil aviation, the investigation of which has been entrusted to a special body. The Committee's list nevertheless comprises expenditure similar to that described above in cases where its direct military importance admits of no doubt. If, for example, a country builds a road or a railway in frontier districts for purely strategical reasons and for the sole purpose of facilitating the transport or the movements of the armed forces, and if, moreover, the road or railway is not regularly used for ordinary purposes, the Committee considered that the expenditure thus incurred should be inserted in its list of national defence expenditure.

¹ Canada, United States of America, U.S.S.R., Netherlands Indies.

On the same analogy, the Committee classes as national defence expenditure funds expended by the State on the military training of men not serving with the colours, such as expenditure for military training in national schools and subsidies to rifle clubs and physical culture societies having a military object.

(b) *Subsidies to private armaments undertakings.* The modern State tends to exert a constantly increasing control over private activities and the public utility conception is tending to extend more and more to all such private undertakings as are of value to the community at large. It even happens in certain countries that the State itself directs all economic and industrial activities.

In many countries whose economic structure is based on private initiative, the State, in its desire to regulate production, nevertheless tends to intervene in the management and financial administration of private undertakings. As a result of the principle of mixed economy which is thus developing to a degree which differs according to cases and which determines the relations of the public authorities with private undertakings, public bodies frequently acquire financial interests in private companies, receiving in return supervisory rights and a share in the management. Such participations may take the most varied forms: the subscription of ordinary stock, the acquisition of shares for some consideration other than cash, the subsequent purchase of shares, the transfer by concession of rights of property or exploitation in certain plant, rights and privileges of all kinds granted in return for supervisory powers and a share in profits, long- or short-term subsidies.

Such co-operation between public and private capital undoubtedly constitutes in the case of certain States a powerful means of developing national equipment for a given purpose. Where the general activity of the private undertakings in which the States acquire participations of the kind described above is of direct importance to national defence, it would appear essential that such participation by the State or public bodies should be subjected to publicity or limitation—this, moreover, irrespective of whether the interests have been acquired through direct subsidies or through subsidies granted through the agency of banking institutions. The Committee of Budgetary Experts expressed the opinion that, if the State acquires financial interests in private firms manufacturing armaments in peace-time, these participations should be regarded as national defence expenditure. When, for the first time in history, the problem of a limitation of expenditure on armaments was raised, the Committee considered that, if these participations were not included, expenditure of a special nature, the importance of which might become very much greater during the actual period of the disarmament Convention, would remain outside the scope of the limitation.

The Technical Committee expressed the same opinion. In order, however, to make it impossible that the inclusion of such participations in the list of national defence expenditure should give rise to disputes during the period of application of the Convention, the Committee thought it necessary to draw up strict conventional rules. The conception which forms the basis of the system of publicity and limitation in regard to expenditure derives from the general definition given above, and it was by it that the Committee was guided in its decision on this delicate question. As the Convention is to refer exclusively to expenditure necessitated or entailed by the existence of military formations and formations organised on a military basis in time of peace, the Committee decided to apply the limitation and publicity provisions only to participations acquired by public bodies in undertakings manufacturing military material in time of peace for the use of the armed forces and formations organised on a military basis. In order to avoid any difficulty of interpretation, a special list of this expenditure has been drawn up. This list is annexed to the present chapter (Appendix II).

(c) *Expenditure on the preparation of industrial mobilisation.* According to the general definition given above, publicity and limitation of expenditure apply in equal degree to all measures which constitute an immediate preparation for mobilisation. If, therefore, a State sets up bodies or institutions for this purpose, if it grants subsidies under any form to private undertakings with a view to the creation of stocks of raw materials or semi-finished articles and to the

adaptation, in the event of mobilisation, of the plant and equipment of such undertakings to an immediate change-over to the manufacture of war material, the Committee's view is that such expenditure should be regarded as expenditure on national defence.

In order to avoid any difficulties of interpretation, the Committee has also included in its conventional list subsidies of this kind, which should be regarded as national defence expenditure.

(d) *Expenditure on pensions.* The Committee recognised that ordinary pensions granted at the end of a certain period of service—such as seniority pensions—are part of the soldiers' emoluments if their career is considered as a whole. The certainty of drawing a pension after a certain period of service on the active list may undoubtedly, owing to the security it confers, facilitate recruiting. This remark, however, does not apply to war pensions, which represent a considerable part of the pension budget of certain countries and can only be looked upon as a reparation for the personal injuries sustained by the pensioners.

The Committee of Budgetary Experts excluded ordinary pensions from its conventional list owing to the apparent difficulty, in view of the existence of combined pensions, of distinguishing war pensions from other pensions. Examination of the documentation showed, however, that, contrary to expectation, such a distinction was comparatively easy to draw.

The Committee considers that, from certain points of view, it is of the greatest importance that the Convention should contain provisions regarding publicity of expenditure for ordinary pensions. Nevertheless, the Committee draws attention to the fact that a reduction of armaments might lead to the discharge of personnel and hence to an increase in pensions expenditure. This increase might be regarded as evidence of the efficacy of the disarmament measures adopted in the various countries. There might, therefore, be some danger from the point of view of interpretation of national defence expenditure if the same publicity were required for pensions expenditure as for other expenditure on national defence. In view of these various factors, the Technical Committee considers that the proposed machinery of publicity should allow of the inclusion of pensions together with other expenditure on national defence, but that, on the other hand, expenditure on pensions should not be made subject to any provisions laid down regarding limitation of expenditure.

(e) *Expenditure on formations organised on a military basis.* In accordance with the terms of the general definition given in paragraph 2 of the present chapter, expenditure arising out of or caused by the existence of formations organised on a military basis should, for purposes of the Convention, be regarded as expenditure upon national defence.

It will be for the Conference to decide what formations should be regarded as organised on a military basis.

It is obvious that the inclusion in the conventional list of expenditure drawn up by the Committee of expenditure on formations organised on a military basis will likewise be conventional in character and will not cover expenditure on certain formations or associations which, although they may be of military value, have not been regarded as organised on a military basis by the competent Committee of the Conference.

(f) *Expenditure of certain associations.* It is possible that certain associations not recognised as formations organised on a military basis may incur certain expenditure for national defence purposes.

An association such as the Red Cross, for instance, may give free treatment to soldiers who have been the victims of an accident, although the general activities of such an association have nothing to do with national defence. This may

also be the case with certain associations designed to promote the military spirit in a country.

The Committee considered the possibility of ascertaining in cases of this kind the proportion of the expenditure of these associations which might be of military value. It took as an example the case of Sweden, in which there are a large number of associations of this kind. The Swedish delegation obtained statements of the internal accounts of all national rifle clubs, the Red Cross Society, the Red Star Society and automobile associations which in that country comprise more than 100,000 members. It was found that only a portion of the expenditure of those associations was for national defence purposes. Their general activities are mainly directed towards humanitarian and educational objects. After a considerable amount of work, the Swedish delegation ascertained that the total expenditure of these associations represented 277,465 Swedish crowns—*i.e.*, 0.2 per cent of the total national defence expenditure of that country. This shows that, even if associations of this kind incur expenditure for national defence purposes, the proportion of that expenditure to the total expenditure on national defence is negligible. The Committee therefore thought that the labour of ascertaining the portion of the whole expenditure of such associations which is of military value would be out of all proportion to the importance of these figures.

However, it is obvious that, if such associations collect sums which they place at the disposal of the armed forces, the expenditure effected out of those sums should be regarded as national defence expenditure and included in the Model Statement. Thus in the U.S.S.R., for instance, the associations known as "Ossoaviakhim" and "Avtodor" have paid over sums to the Red Army, and this expenditure has been inserted in the U.S.S.R. Model Statement. In Switzerland, funds collected by certain groups of persons have been placed at the disposal of the national defence services. Moreover, in certain countries, donations and bequests have been made by private individuals to the armed forces. It may also happen that, instead of paying the sums collected direct to the national defence services, the associations may give certain material to the armed forces. In such cases the expenditure effected out of those sums and the value of the material supplied should obviously be inserted in the Model Statement.

- (g) *Expenditure on services made use of to some extent by the armed forces in time of peace.* In nearly every country, there are services which serve both civil and military purposes—*e.g.*, the geographical, topographical, hydrographical, surveying and meteorological services, the harbour and coast services, organisations for the regulation of fisheries, record and historical research services.

Expenditure on these services is sometimes shown in the military and sometimes in the civil budgets. It is often difficult to determine what proportion of these common services serves military purposes, but the Committee does not consider that this difficulty is insuperable and thinks that each State should show, with supporting documents, what portion of the expenditure on these services was effected for military purposes.

Similarly, it has been observed that certain budgets contain expenditure which is of both military and civil importance. In the United Kingdom, in France and in Italy for instance, the Air Ministries are concerned with both military and civil aviation. Certain expenditure on common services is thus of a mixed character. In view of the fact that decisions will later on be taken by the Conference regarding publicity of expenditure on civil aviation,¹ the Committee confined itself to enquiring whether it was possible in every case to distinguish expenditure for military aviation from expenditure for civil aviation. The results of this enquiry will be found in another portion of the report (Chapter VII).

¹ Article 37 of the draft Convention.

**5. Interpretation,
for Purposes of
the Convention,
of the Conventional
List of Expenditure
on National
Defence.**

(a) *Expenditure
arising out of
certain exceptional
and unforeseen
events.*

The Committee of Budgetary Experts had specially referred to the possibility of excluding from the heading of national defence expenditure any expenditure arising out of assistance given in cases of emergency

by armed forces to civilian populations in the event of natural disasters, such as floods, earthquakes, forest fires, etc. In the opinion of the Committee of Budgetary Experts, such expenditure,

which is in some cases repaid wholly or in part by those on whose behalf it was effected, should not be regarded as expenditure on national defence.¹

The exception proposed by the Experts concerned a limited and definite subject. The National Defence Expenditure Commission, however, and its Technical Committee received from the Japanese delegation a proposal for the extension of this exception to all cases in which the armed forces of a country are called upon to protect the lives and property of its nationals. The Japanese delegation further proposed that, if such extraordinary expenditure was incurred for the reconstruction or restoration of plant or material destroyed by earthquakes or other public disasters, it should not be regarded as expenditure on national defence.

To this proposal was added a proposal submitted by the Chinese delegation.² The latter expressed the opinion that difficulties of interpretation might be encountered should demands for such exclusion actually arise. The Chinese delegation therefore considered that, though there might be no objection to considering such possibilities, it should nevertheless be clearly understood that any exclusion clause should be strictly confined to cases in which services were rendered to the civilian population by the national army in the course of its ordinary duties within the territory of the country, on the occasion of internal civil disturbances or natural disasters.

The Technical Committee considered, from a general and purely technical point of view, the whole question raised by the exclusion proposal put forward by the Budgetary Experts and by the extensions of this clause suggested by the Japanese delegation. The Committee recognised the danger, from the point of view of the efficacy of the system for budgetary limitation or publicity, of admitting that the State concerned might independently decide that such extraordinary expenditure might be excluded *a priori* from the Model Statement of national defence expenditure which would be subject to publicity or limitation. There would indeed be no guarantee that, under such a procedure, a portion of the expenditure thus excluded might not have served to increase the armaments of that State. If such expenditure were excluded from any publicity or limitation, it would, for instance, be impossible in cases of destruction by earthquake to ascertain whether the plant or material reconstructed or repaired was not of greater value than that destroyed.

The Committee found, however, that these exceptional circumstances might involve unforeseen expenditure which would not increase the armaments of the countries concerned. The effect of fixing limitation figures might be to prevent a State from meeting these requirements. This also applies to other exceptional expenditure and expenditure that could not be foreseen. For instance, the fixing of limits might prevent a State from suppressing internal disorder or revolts in distant colonies or possessions, or from replacing a vessel lost or accidentally destroyed, although the effect of such unforeseen expenditure would not be to increase the armaments of the State concerned.

Consequently, in all cases of this kind, the Committee recognised the necessity for a special procedure which would allow of the exclusion of such expenditure. This procedure will be detailed in another part of the report.³

¹ See page 11 of the Report of the Committee of Experts on Budgetary Questions.

² See *Minutes* of the National Defence Expenditure Commission, pages 35 and 36.

³ See Chapter XV.

- (b) *Expenditure arising out of the reduction of armaments.* The Committee enquired whether certain special expenditure actually caused by the reduction of armaments should be regarded as expenditure on national defence. Though the reduction of armaments ought to lead to economy, it may nevertheless involve certain temporary increases of expenditure of a particular kind.

As already mentioned, the Committee decided to exclude ordinary pensions from the limitation of expenditure, as an increase in such pensions might be caused by a reduction of armaments. It has also pointed out the importance of a special publicity for pensions.

Reduction of armaments may, however, involve expenditure of a different nature. Thus, a reduction in effectives may involve the withdrawal of certain garrisons, and the municipalities which had previously incurred expenditure for the housing of the troops would be entitled to demand certain compensation.

Similarly, the reduction of armaments might lead to the cancellation of certain contracts for supplies or construction—*e.g.*, the cancellation of a contract for the construction of a war vessel might involve the payment of heavy compensation. In cases of this kind in which the States could prove that the expenditure incurred could not lead in any way to an increase of armaments, some procedure of exclusion should be considered on the lines of that indicated above for expenditure of an unforeseen and exceptional character.

The Committee is, however, of opinion that such exclusion should not be allowed in the case of expenditure on the re-grouping of forces or the setting-up of new military establishments in certain districts following upon a reduction in armaments. It would be almost impossible to ascertain in every case whether expenditure of this kind was really a consequence of a reduction in armaments, or whether it was not in fact an increase in the armaments of the country.

The Committee considers, therefore, that expenditure entailed by a reduction in armaments should be regarded as expenditure on national defence and as subject to publicity and limitation, but that in certain cases, with special reference to payments of compensation of any kind to third parties, a special procedure might be instituted. This procedure will be indicated later.¹

* * *

Having thus drawn attention to and solved the difficulties that might arise in connection with the utilisation for the purposes of the Convention of the conventional list of national defence expenditure—at any rate in so far as its decisions are not subordinate to the work of other bodies of the Conference—the Committee is of opinion that the definition and the conventional list of expenditure which it has drawn up may serve as a legal basis for the conclusion of a Convention for the publicity and limitation of national defence expenditure.

It would draw the attention of the Commission on Expenditure to the fact that this list corresponds very closely to the current conception of military expenditure with which the national budgets are permanently burdened. The Committee is clearly of opinion that such expenditure alone is referred to by the resolution adopted by the General Commission on July 23rd, 1932, which laid down the lessening of financial burdens as the goal to be aimed at by the Commission on Expenditure and its Technical Committee. It would appear, therefore, that the conception which formed the basis of the conventional list is in agreement with the aims of the Conference.

¹ See Chapter XV.

Appendix I.

CONVENTIONAL LIST OF ITEMS OF NATIONAL DEFENCE EXPENDITURE.

National defence expenditure is expenditure in respect of military, naval and air formations, services and establishments in the home country and colonies, in particular:

Central administrations;

Missions;

Military, naval and air attachés;

Headquarters staffs and staffs of commands;

Various arms and branches of the armed forces:

- Infantry, cavalry, artillery, engineers and signal corps, tanks, anti-gas units, combatant and non-combatant personnel of all categories of the naval armed forces, flying personnel and auxiliary personnel of the air armed forces and all services, formations and establishments of the land, naval and air armed forces;

Supply corps, transport troops,

Pay and accountancy technical services,

Recruiting service,

Medical and hospital services,

Remount and veterinary services,

Chaplains,

Military police,

Justice and prisons,

Colleges, schools and training centres;

Scientific services: records, libraries, museums.

Geographical service, hydrographical or coastal surveys, cartographic service.

Meteorological service and astronomical service.

} in so far as these services work for the army, navy or air force.

This expenditure includes:

A. *In respect of expenditure on personnel:*

1. Pay, half-pay, salaries, allowances of all kinds, bonuses, gratuities, remuneration, grants, family allowances, travelling and mission allowances, contributions by the State to pension and social insurance funds, in respect of military or civilian personnel whether normally forming or not forming an effective part of military, naval and air formations, services and establishments (personnel with the Colours, unattached or on leave, persons undergoing preparatory military training, territorials, reservists during periods of training or not).

2. Expenditure on maintenance, viz.:

(a) Expenditure for meeting the immediate requirements of the effectives normally forming part of formations, services and establishments, and of personnel called up for periods of training, more especially expenditure on subsistence, clothing, equipment, bedding, furniture, heating, light, washing of linen, sanitation and medical attention, religious services, office work, military physical and athletic training and education and amusements, together with expenditure in respect of compensation for losses and damage caused by military formations, services and establishments;

(b) Expenditure in respect of the creation and maintenance for military purposes of reserves of goods, foodstuffs, raw materials or products relating to the aforementioned requirements;

(c) Subsidies paid to private associations and institutions with a view to meeting these same requirements (Red Cross, pigeon fanciers' societies, etc.) together with expenditure relative to shooting clubs and physical culture societies so constituted as to be of military importance, fees and allowances granted to individuals for services rendered (doctors, dentists, pharmacists, nurses, barristers, etc.).

B. *In respect of expenditure on transport:*

Expenditure relating to horses and other animals, the purchase of raw materials, hand tools, finished articles and their repair by private industry irrespective of whether such materials and

products (forage, shoeing material, harness, bicycles, motor and horse-drawn vehicles, liquid fuel and lubricants, etc., spare parts and accessories) are intended for stock or current use, together with expenditure relating to workmen or to transport and communication services (post, telegraph, telephone, radio) rendered by non-military, non-naval or non-air force organisations and to all other services rendered by private individuals (veterinary surgeons, civilians, etc.).

Subsidies of a military nature for horse-breeding, subsidies to the owners of horse-drawn and motor vehicles, subsidies relating to the organisation of communications of a military character and, generally speaking, all other expenditure in respect of liquid fuel, transport and communications.

C. In respect of expenditure on buildings:

1. Expenditure relating to the construction, repair and upkeep of fortifications and defensive works.

2. Expenditure relating to the purchase and hire of land and buildings, building operations, water supply, gas, electricity, the improvement, extension, upkeep and repair of all kinds of buildings, including expenditure on fixed machinery and heavy plant (barracks, accommodation, schools, hospitals, stud farms, State establishments for meeting the material needs of military, naval and air units, store-houses and depots, hangars, aerodromes, training and musketry camps, sheds for stores, etc., marine works in naval ports and naval bases including repair docks, landing stages and floating docks and all other works for the land, sea and air forces and formations).

3. Expenditure relating to the construction, modification or upkeep for specifically military purposes of roads, bridges, railways, landing stages, jetties, platforms, semaphore signal apparatus, canals, together with drainage or forestry works.

4. Subsidies granted for military purposes with a view to the purchase, hire, improvement, extension, upkeep and repair of the buildings, objects and articles mentioned in paragraphs 2 and 3 above, or any similar expenditure.

D. In respect of expenditure on war material:

This expenditure comprises for all categories of war material specified below:

(a) Expenses of upkeep and repair, purchases from private traders or manufacturers and manufactures in State factories of ships, goods, materials and ammunition, whether complete or in parts, intended either for purposes of training in time of peace or for the equipment, armament or endowment of forces on a war footing with material of all kinds, and replacements for these forces, and also the expenses relating to the creation or maintenance (in State or private hands) of stocks and plant useful only for the construction of warlike stores.

(b) Cost of scientific research and experiment, inspection of material delivered and preparation of plans for material, manufacturers' subsidies or other similar expenditure, such as that relating to the preparation of industrial mobilisation (subsidies granted to undertakings which do not normally manufacture material in peace-time in the event of these subsidies being intended to equip them in peace-time for producing war material as soon as mobilisation begins), subsidies to the mercantile marine and all other expenditure for the construction and maintenance of vessels held at the disposal of the State for use for military purposes in time of war, or for strengthening the decks of merchant ships.

The categories of material are as follows:

1. Arms, ammunition and fighting material, engineering material and other armaments of war; small arms and automatic fire-arms: rifles, muskets, carbines, revolvers and pistols, quick-firing rifles and pistols, machine-guns, apparatus and appliances for throwing projectiles, including vehicles for transport.

Long and short guns, howitzers, mortars, infantry guns, anti-aircraft guns.

Ammunition for small arms, automatic weapons and guns, bombs, grenades, torpedoes and other kinds of projectiles, explosives, mines, paramines, including the electric apparatus connected with all this material, ammunition wagons, carriages, boxes, etc., for their transport.

Cutting weapons, such as swords, sabres, lances, bayonets and daggers.

Tanks, armoured cars, armoured trains.

All other arms, ammunition, apparatus and appliances for throwing projectiles, accessory equipment and spare parts.

Tractors.

Railway material, searchlight equipment, pioneer equipment, bridging equipment, signalling and radio stores, boats, acoustic and optical instruments, anti-gas stores, mining stores, accessories and spare parts, vehicles connected therewith and all other categories of material.

2. Warships of all kinds, aircraft carriers, victualling craft, fuelling craft, naval armament vessels, repair ships, tugs, barges and lighters, floating docks, including material of all kinds connected with these vessels, and all other craft intended for naval use.

3. Aeroplanes and airships, free and captive balloons, instruments, engines, and stores—wireless, electrical, photographic—oxygen, material for heating purposes, parachutes, ground electrical equipment, hydrogen and helium, accessories and spare parts.

Note. — 1. The enumeration contained in this list is not exhaustive.

2. The various categories of expenditure included in this list and relating to formations organised on a military basis must also be considered as national defence expenditure in so far as the formations are designated as such by the Conference.

Appendix II.

SPECIAL LIST OF SUBSIDIES TO PRIVATE FIRMS HAVING AMONG THEIR OBJECTS THE MANUFACTURE OF WAR MATERIAL IN PEACE-TIME, AND SUBSIDIES FOR THE PREPARATION OF INDUSTRIAL MOBILISATION (paragraphs (b) and (c) of Chapter II).

These subsidies include:

(a) Subsidies to industries, firms and workshops which normally manufacture war material in peace-time, granted for the purpose of installing, maintaining or increasing plant and equipment intended for the manufacture of war material or of creating or maintaining stocks of war material.

(b) Subsidies to industries, firms and workshops which do not normally manufacture war material in peace-time, granted with a view to preparing for industrial mobilisation—*i.e.*, with a view to equipping them in peace-time to produce war material as soon as mobilisation begins.

Chapter III.

NEED FOR UNIFORM PRESENTATION OF THE FIGURES OF NATIONAL DEFENCE EXPENDITURE.

In its investigation of national defence expenditure contained in the budgetary material submitted to it, the Committee has found that the internal accounts of the different countries vary greatly in form. The proportions in which national defence expenditure is borne by the State, by regional or local public authorities, or colonies, or in some cases even by private organisations or individuals, vary in the different countries.

1. Expenditure by the State. In the case of expenditure by the State, annual accounts relating to the execution of the budget show, alongside the votes granted, the use made of these votes—*i.e.*, the payments actually effected. The structure of these accounts, the relative reliability of which will appear later, differs very widely, and their interpretation requires a knowledge of the rules of public accountancy of each country. Side by side with the statements relating to the execution of the budget, which show the payments made out of the credits voted and record almost all public expenditure, the Committee also occasionally finds special funds formed by the appropriation, for one special national defence purpose, of a part of the general or special resources of the State. The separate accounts for these funds are sometimes included in the general State accounts themselves; in this case their interpretation is generally no more difficult than the interpretation of budgetary accounts strictly so called, though occasionally they are less easy to follow. Cases, however, also occur where certain special funds constitute real entities or distinct “accountancy persons” with a separate existence and separate sets of accounts. This is the case, for instance, with foundations or trust funds for national defence purposes. Expenditure defrayed out of such special funds must be taken into account in a Convention for publicity and limitation in the same way as expenditure entered in the general accounts of the State.

Most of the national defence expenditure of all countries is shown in the budgetary accounts of the military departments. It has been found, however, that certain specifically military expenditure is entered in the budgets of civil departments—*e.g.*, expenditure on recruiting or the military training of the young, on housing accommodation for military personnel, and expenditure on the purchase of horses for the army. The figures for such expenditure, which, incidentally, is relatively small, are shown in the statements relating to the application of the budgets for the civil departments. Occasionally, however, they are found lumped together with certain similar payments made for other than national defence purposes, in which case it is sometimes difficult to separate the military expenditure entered in civil budgets.

In some countries payments for military pensions or grants to pension funds are shown in the budgets of national defence departments, whereas in other countries this expenditure is included in the accounts of the Finance Ministry or another civil department.

Lastly, certain expenditure not of a specifically military character is occasionally included in the accounts of national defence departments for practical or traditional reasons; publicity or limitation should not apply to such expenditure.

2. Expenditure by Regional or Local Public Authorities. Regional or local administrative units are sometimes responsible for certain national defence expenditure. In some cases, these authorities make direct contributions to the State, the utilisation of which is indicated in the published accounts of the State; in other cases they defray the expenditure themselves but are repaid at least in part by the State, which then shows these payments in its own accounts; lastly, the total expenditure may be borne entirely by the authorities mentioned above and be entered in their accounts. This is undoubtedly in some countries a survival of an old system under which the central authority was obliged, before it could wage war, to call for contributions from the regional and local authorities. However unimportant such contributions may be as compared with the national defence expenditure defrayed by the State, they cannot be overlooked in a Convention for publicity or limitation. In the event of expenditure on formations organised on a military basis having to be included in a publicity or limitation Convention, the relative importance of the military expenditure shown in the budgets of federal States and other regional authorities would certainly tend to increase.

3. Expenditure by Colonies. In accordance with the juridical nature of the relations between the colonies and the parent State, expenditure on the defence of the colonies may be entered in the accounts of the parent State (*e.g.*, this applies to the Spanish colonies and to nearly all the military expenditure of the French colonies) or in the colonies' accounts (the Belgian Congo, the Netherlands East Indies, the Italian and Portuguese colonies). In the case of the colonies, mandated territories, etc., of the United Kingdom, the cost of local troops is entered in the local accounts, whereas most of the expenditure on the regular army is chargeable to the home country. The defence expenditure for India and the Dominions is shown in the accounts of these countries.

4. Expenditure by Organisations and Individuals. Expenditure by organisations or individuals on national defence in the form of donations or legacies is sometimes included in the published accounts, but sometimes not. However small such expenditure may be, it should nevertheless be subject to publicity and limitation.

5. Different Methods of Accounting. The accounts of some States show the total cost of national defence services without any diminution or deduction. The national defence services receive supply votes out of which they have to pay all their expenses, and they are not allowed to augment the amounts of these votes from private sources. Receipts earned by defence services—*e.g.*, the proceeds from the sale of waste or scrap in manufacturing establishments, from the sale of old material or buildings no longer needed by the armed forces, or from deliveries of supplies to civilian departments or private individuals—are paid over to the Treasury and these amounts cannot be refunded to the services to increase their expenditure. It is seldom, however, that there are not some exceptions to this rule. In certain countries like Denmark, the Irish Free State and the United Kingdom, the defence services have the right to collect direct certain receipts, the amount of which is added to the budgetary credits and is used like the latter for the operation of the services in question. The budgetary votes in accordance with which defence services are authorised to obtain funds from the Treasury do not, therefore, form the whole of the resources used by the defence services. The expenditure defrayed out of sums received by the services must be added. In certain countries, however, and particularly in the United Kingdom, the public authorities fix alike the maximum amounts for which the defence services may draw on the public Treasury and the limits within which they can use their own receipts. It is therefore possible, with the help of the public accounts, to reconstitute the amount of the gross expenditure—*i.e.*, the total amounts actually expended for national defence. The

reconstitution, however, of the gross expenditure involves calculations which are all the more indispensable inasmuch as there are frequently very substantial differences between the total net and the total gross expenditure.

6. The Model Statement.

The considerations briefly set out above show how difficult it is to suppose that States can prove by means of budgetary accounts very dissimilar in character that they have fulfilled any undertakings they may have assumed in regard to publicity or limitation, undertakings which would necessarily have a common legal basis. In order to reckon all the expenditure which is really subject to publicity or limitation by taking the budgetary accounts as a basis, it would be necessary to proceed to investigations, interpretations and calculations which would entail a knowledge in each country of the administrative practice and institutions both of the State itself and of the regional and local public authorities. It would also be necessary to ascertain whether, and to what extent, the national defence expenditure incurred by organisations and individuals is included in the public accounts. This would, in the Committee's opinion, be a very difficult, and indeed practically impossible, task for any organ of supervision and control. Moreover, as the previous chapter has shown, the national defence expenditure subject to limitation or publicity has been enumerated in a list which the Committee has drawn up with a view to defining with all possible precision the scope of the Convention. But the dividing line between such expenditure and expenditure which, though of military value, is not to be regarded as national defence expenditure within the meaning of the Convention does not appear from the accounts. The budget accounts cannot in themselves therefore furnish proof of the observance of the contractual engagements assumed by States.

It appears that the most effective means of achieving this object would be to draw up a uniform framework to which all countries could transfer all national expenditure within the meaning of the Convention, whatever the nature or origin of the funds out of which such expenditure is met.

Accordingly, the Committee, following the lines of the previous work done by the Preparatory Commission and the Committee of Budgetary Experts, first drew up, as stated in Chapter II, a conventional list of national defence expenditure and then classified it in a very simply designed *Model Statement*, particulars of which will be given in Chapter XVI.

7. Reconciliation Tables.

After classifying military expenditure, the Technical Committee laid down exact rules for the transference by each State of its expenditure to the international statement. Each State will be required to supply a key to the transfer of the expenditure appearing in its national accounts by means of a uniform *reconciliation table*, showing the exact relation between the figures in the accounts and those in the Model Statement.

* * *

The closed accounts, the reconciliation table and the Model Statement represent links in the same chain binding all States to observe their contractual obligations under any Convention concluded with regard to the publicity or limitation of expenditure on armaments.

* * *

8. The Model Statements of Expenditure do not allow of the Comparison of the Armaments of Different Countries.

Although in this way the national defence expenditure of the different countries can be shown in a uniform manner, the Technical Committee desires at once to draw the Commission's attention to an essential point.

The Model Statement eliminates the differences of *form* in the presentation of accounts, but not the differences of *substance* which are inherent in the nature of things or due to the diversity of institutions. These differences of substance justify the conclusion at which the Committee has arrived *that armaments of the various countries cannot be compared on the basis of the expenditure figures*. This conclusion will be

more fittingly drawn and developed at a later stage of the report, as it derives, not merely from general principles, but also from the actual labours of the Committee of which an account must first be given.¹

On the other hand, the Committee considers that the successive production of statements of expenditure will make it possible, if the data are properly interpreted and variations in unit prices and in the cost of armaments are carefully observed, to follow year by year the development of the national outlay on defence in the case of each State.

¹ See, for the development of this conclusion and the reservation made in this connection, Chapter XXI.

Chapter IV.

PAYMENTS MADE DURING THE FINANCIAL “EXERCICE” MUST SERVE AS THE JURIDICAL BASIS FOR THE PUBLICITY AND LIMITATION OF EXPENDITURE.

1. Object of Limitation. The conventional conception of national defence expenditure has been dealt with in Chapter II.

The contracting parties will be required to enter in the Model Statement all expenditure falling within this definition, whatever the origin and nature of the resources from which it is met. The Model Statement will thus include, not only the State's expenditure on national defence, but also all expenditure incurred for the same purpose by regional or local public authorities, organisations and even individuals.

The purpose of the limitation of expenditure is to limit all armaments intended for national defence.

2. Conditions to be fulfilled by the Legal Definition of Expenditure. If armaments are to be limited through expenditure, two conditions must be fulfilled:

(a) There must be a precise and direct relationship between expenditure and the acquisition of armaments. The expenditure must be contemporaneous, or as nearly so as possible, with the rendering of the services or the delivery of the materials.

(b) It must be possible to ascertain, at very frequent intervals, whether the Convention is being executed. The expenditure must therefore be periodically accounted for in documents on which it is possible to place reliance and which give, in an accessible and satisfactory form, a picture of the financial activities of those responsible for the expenditure.

The definition of the term “expenditure”, on which the Convention is to be based, must fulfil the two conditions mentioned above. The Committee has endeavoured to comply with them in regard to State expenditure and, other things being equal, the concept which will emerge from this analysis will also apply to expenditure by public or private bodies and by individuals.

3. Successive Acts in settling Expenditure. As is pointed out by the Budgetary Experts, the process by which a *State* procures services or materials consists of a number of successive transactions.

The public authorities authorise the departments to spend a sum for a given purpose.

The departments enter into a commitment for the expenditure; they conclude bargains or contracts with tradesmen or contractors to procure labour or articles; they engage personnel. Thus they create debts payable by the State.

The articles are delivered and the services are rendered.

The bill is received, verified and accepted and the services rendered by personnel are calculated—*i.e.*, the State's debt is thus liquidated and acknowledged at the proper figure.

An order for payment is then issued in virtue of which the authority responsible for the payment is authorised to hand over to the creditor the sums which are due to him.

The payment is made which discharges the State of its debt.

**4. Authorisation
of Expenditure by
the Public
Authorities.**

In ordinary parlance, the expression armaments expenditure is generally taken to mean the amount of the *budgetary credits* allocated to national defence.

From the standpoint of a Convention for publicity or limitation of expenditure, the voting or fixing of the credits by the public authorities is of unquestionable importance. It is, indeed, when expenditure is authorised that the attention of Parliament and public opinion is concentrated upon the financial effort which the nation is called upon to make for the defence of the country. Budgetary credits, however, are merely estimates or intimations of the sums which a Government proposes to spend on armaments. In no case, therefore, can the vote of a credit coincide with the acquisition of the armaments. It sometimes happens, as will be seen below, that, in certain countries, the validity of authorisations for expenditure may extend over several years. The armaments may therefore come into being long after the authorisation. It is also possible that the budgetary credits may remain unutilised, at any rate partially. Credits have, moreover, a very varying significance from country to country; they may limit the commitments, the orders for payment, or the payments, permissible during the financial year. Owing, lastly, to the necessity for voting supplementary or excess credits, the amount of the credits finally granted for a given year is not fully known until after the end of that year. These considerations suffice to show that the credits voted by no means satisfy the first condition recognised to be necessary for the definition of expenditure and that they cannot therefore be taken as a legal basis for a Convention on publicity or the limitation of expenditure on armaments.

5. Commitments.

When the defence services have been authorised to spend, they enter into *commitments*. A commitment must necessarily be entered into before any armaments can be made available. When the State or any other administrative authority engages an employee or an official, it binds itself by the very act of engagement or recruitment to provide him with his salary or pay during the whole of his career. Services will be rendered for a long period after liability for the expenditure has been incurred. A long period may also elapse between the commitment and the delivery of material, especially if it is considered that the time during which important orders may be executed may extend over three, four or five years (artillery, buildings, warships). It will therefore be seen that the commitment cannot be simultaneous with the acquisition of the armaments, and cannot for this first reason serve as a legal basis for a Convention on the limitation of expenditure. There is still another reason. Certain countries enter in their annual accounts an estimate of the debts which commitments have created or will create. But among the countries which keep such accounts, many do not indicate the amounts of the annual commitments in their published accounts. Thus the two conditions mentioned as necessary for any legal definition of expenditure are not fulfilled in the case of commitments.

**6. Liquidation¹ of
Expenditure.**

It is generally after the services have been rendered and the materials delivered and received that the State acknowledges its liability, calculated on the basis of contractual rates or prices. It may, however, happen that certain materials are partially paid for before completion or delivery. Such is more especially true of building or manufacturing operations extending over a period of several years, such as shipbuilding or the manufacture of guns. In such cases the firms obtain successive payments on account to enable them to pay wages and to cover their expenditure on plant and the purchase of raw materials or half-finished products; such payments on account are deducted from the final amount of their claim.

The process of *liquidation* in the case of expenditure on personnel is always simple and may be carried out with great rapidity. This, however, does not hold good for the liquidation of expenditure on material. When delivery has been finally taken or the period of the guarantee has elapsed, the final liquidation often takes some time, especially

¹ This term is used in the sense of its French equivalent, meaning the acknowledgment of a liability.

if the working out of the accounts involves complicated calculations owing to the combined application of unit prices and serial prices. However, liquidation usually ensues fairly soon after the services have been rendered or the goods have been supplied. It would thus satisfy the first condition laid down for the definition of expenditure, but as a rule very few States enter liquidation operations in their accounts. It is thus impossible to take liquidation as the basis for the Convention, since it does not satisfy the second condition required.

**7. Issue of Orders
for Payment.**

When the debt has been liquidated, a payment order must be made out to enable the creditor to receive the sums due to him. This payment order is handed to the creditor or to the office responsible for making payment. The payment order is usually issued immediately or shortly after liquidation, and sometimes actually forms part of this latter operation. However, the Committee has found that very few States enter payment orders in their public accounts, and hence the issue of those orders cannot serve as a basis for a limitation Convention either.

**8. Payment of
Expenditure.**

When a payment order has been issued, the State discharges its liability either by remitting to the creditor the sum due to him or by placing this amount to his credit with some bank. As a rule, the *payment* of sums due follows fairly closely upon liquidation and the issue of the payment order. Although the materials or intermediate products have usually been in the possession of the State for some time when the creditor collects the amount due to him, there are nevertheless everywhere customary time-limits for payment, the duration of which, though varying with the administrative practice of the different States, is short enough to make it possible to establish, if not an immediate, at all events a sufficiently close connection between payment and delivery. Consequently, *if payment is made within the usual time-limits*, it fulfils in a fairly satisfactory manner the first condition laid down for the definition of expenditure. It may be remarked that in certain countries—*e.g.*, the United Kingdom and Japan—the issue of an order for payment takes the form of the issue of cheques to the creditors; such cheques, being immediately payable, are in fact equivalent to disbursements.

All States, even those whose accounts are based upon commitments or orders for payment, enter payments in their published accounts.

This is a necessity which is felt by all alike. Whatever may be the diverse conceptions governing the establishment of general accounts, all such accounts, even those the essential nature of which consists in a comparison of claims and debts, show the annual payments which it is essential to ascertain so that, by comparing them with the receipts actually collected, it may be possible to establish the cash position of the Treasury. Payment is the only act for the settlement of expenditure which has everywhere the same meaning and which appears in all published accounts. Payment is a universal concept. For these reasons, the Committee has felt bound to take *payment*, which is also of great value from the point of view of publicity, as the legal basis of limitation. *For the purpose of the Convention for limitation and publicity, to spend means to pay.*

**9. Coincidence of
Date of Payment
with Performance
of Services
or Delivery of
Material.**

Most States show in their accounts the payments made during a period of twelve months, irrespective of the origin of the credits under which the expenditure was authorised. If, under such a system of accountancy, payments are made within the usual time-limits, the entire payments for twelve months represent approximately the value of the armaments actually acquired during that period.

Other Governments show in their annual accounts, not only payments against budgetary credits for the year during twelve months, but also payments charged against those

credits during an additional period which varies from country to country between one and twelve months. In the majority of cases, this additional period is used solely for the purpose of liquidating, issuing payment orders and paying debts contracted by the State for services rendered and goods supplied during the twelve months of the year.

In this case, the payments entered in the accounts accurately represent the armaments acquired during the year of twelve months. But, at all events as regards goods supplied, the time-limits allowed for delivery may be extended for a certain time after the end of the twelve months. In such cases, payments correspond to armaments acquired not merely during the year of twelve months, but also during the period over which deliveries might still be made.

**10. Deferred
Payments.**

Subject to these remarks, it may be stated that, when payment is made within the usual periods, the limitation of expenditure involves the simultaneous limitation of armaments. Payment may, however, be made at a date considerably later than that at which the service was rendered or the delivery effected. This is particularly the case when States have recourse to purchases on credit—*i.e.*, when the contracts relating to supplies or to construction works allow of payment over a considerably longer period than that laid down for delivery. In this case, limitation of expenditure on the basis of payments is clearly still possible and effective, as sooner or later payments must be made and will appear in the final accounts for the year or for the years subsequent to delivery. In such cases, however, the armaments would not be limited at the same time as the corresponding expenditure.

The Committee considers that States should not be allowed to use such a system in order to acquire in the course of a given year armaments in excess of the quantity which would be assigned to them. It has accordingly laid down special stipulations which are stated and discussed in Chapter XVI of the report.

**11. Unpaid
Services.¹**

There is one objection which might be made to the choice of payment as the legal basis of the Convention. Would not such a choice remove from publicity and limitation unpaid services and payments in kind by which public or private associations or individuals contribute to national defence ?

At this point a distinction must be drawn. On the one hand, there are services and contributions which may be regarded as a part of the military organisation of a country, an organisation which is known and of which account must be taken when the contractual limits are laid down ; on the other hand, there is the more or less extensive assistance that can be given gratuitously by associations or individuals for purposes of national defence from motives of national solidarity and patriotism.

There can be no question of estimating for the purposes of the Model Statement the value of the free services given by a soldier in a conscript army. A conscript, it is true, receives only a very small remuneration, whereas a professional soldier is paid in relation to the value of the wages ruling in industry and trade. But the fact that a conscript gives his services without pay is a direct consequence of the military institutions of the country. Such services do not involve any disbursement and could not be regarded as calling for special provisions in a Convention for publicity or limitation of expenditure. To attempt to bring under the limitation of expenditure services which do not give rise to any payment would involve a contradiction in ideas and language.

The position is quite different when we are dealing with services to national defence which associations or private persons render by supplying material. In such cases, the value of these services or material should be shown in the Model Statement of expenditure on national defence. The articles, products or materials placed at the disposal of the armed forces by associations or private individuals have previously been paid for by them, and the inclusion of the purchase price in national defence expenditure is in accordance with the conception of limitation or publicity adopted by the Committee. There

¹ See Chapter XVI, last part.

can be no such thing as an unpaid service “in itself”; any service which appears as an unpaid service with reference to those benefiting from it, in this case the State, is not unpaid from the point of view of the person rendering such service.

The Committee has also given attention to certain special cases which have been brought to its notice. A State, for instance, may arrange for the unpaid performance of certain work of interest to national defence by workmen employed by a firm or factory which continues to pay them their regular wages during the execution of such work. A State might also conceivably give work on national defence to unemployed workmen, and pay them a sum additional to their unemployment allowance.

In accordance with the fundamental principle of limitation, all expenditure of this kind should appear in the Model Statement, whatever be the origin of the resources from which payments are made.

12. Material for Consumption taken from Store. It has been observed that, while the Convention is in course of execution, a State might use part of its consumable material in store in order to avoid expenditure. Such a procedure was noted during the examination of the documentary material concerning France and the United Kingdom, where credits for ammunition for firing practice and for clothing respectively, and also for certain other articles for the current use of troops, were curtailed by Parliament by 109,720,000 francs and £530,000 on account of existing stocks. The Committee wondered whether in this case it would be advisable to add to the expenditure of the year in the course of which such procedure was followed the value of the consumable materials taken from store.

The Committee considered in the first place the case in which the stocks thus consumed had been purchased before the conclusion of the Convention. The inclusion of the value of the stocks consumed in the Model Statement for the year of their consumption would bring into account, as regards the justification of the limit for the year in question, certain expenditure effected prior to the Convention. The Committee also held that such taking of stocks out of store, which might actually be one of the most immediate effects of the limitation of expenditure, would doubtless make it possible for the national defence services to function during one year, but would also diminish the stocks in store, and that the total possessions of a State which adopted this procedure would in fact be decreased thereby in the long run.

If, on the other hand, the material consumed was bought after the conclusion of the Convention, then the expenditure would be shown first in the Model Statement for the year in which the purchase of the consumption materials took place, and then again at the time of their consumption, which would mean a duplication.

For these reasons, the Committee finally discarded all idea of adding to the annual expenditure the value of consumable materials taken from store for the maintenance of defence services. Moreover, the Technical Committee, having been instructed to study the methods by which publicity for and limitation of expenditure could be applied, felt that it would be exceeding its terms of reference if at the present stage of its work it examined the ultimate influence of the limitation of expenditure on armaments themselves, and in particular on existing immovable property, material, and stocks—*i.e.*, in short, on the possessions of the national defence services.

Part II.

BUDGETS AND ACCOUNTS.

The payments must constitute the juridical basis of the Convention on publicity and limitation of expenditure. Payments made by the various public bodies are shown in accounts, the most important of which are the budget appropriation accounts. The degree of authenticity of the figures entered in the accounts depends on the general rules governing public accountancy from the preparation of the budget until the completion of its execution: it depends more particularly on the effectiveness of the internal supervision exercised during the execution of the budget over all acts of the financial administration and, after such execution, over the final accounts.

The headings in the accounts are almost always very concise, and are, as a rule, not accompanied by any additional explanation as to the precise nature of the expenditure—that is to say, the exact purpose of the payments; they simply indicate the material fact of payment. Although most of the accounts submitted have the same divisions and subdivisions as the budget itself, some of them are drawn up in a less detailed form, so that their headings do not always clearly show the objects of the expenditure. The account in itself does not always enable the exact purpose of the expenditure to be determined. On the other hand, that purpose is defined more clearly at the time when the expenditure is authorised—that is to say, when the credits are granted. The real purpose of payments can thus be determined more readily by comparing the credits with the payments. But the results of such a comparison are reliable in proportion to the strictness of the internal supervision exercised over the execution of the budget. The certainty that authorisations to incur expenditure have not been diverted from their object and that payments inserted in the budget appropriation accounts really represent the exact value of services rendered and deliveries made depends ultimately on the existence and functioning of this internal supervision.

Such are the reasons which led the Expenditure Commission to instruct the Technical Committee to carry out an enquiry into the different budgetary systems. The present part of the report shows the results of that enquiry.

Since nearly all national defence expenditure is entered in the State accounts, this study is chiefly concerned with the budgets and accounts of the central Government. The budgets and accounts of local authorities, regarding which the Committee has collected less abundant material, are dealt with more generally in an addendum at the end of Chapter VI.¹

¹ See page 52.

Chapter V.

PREPARATION, ADOPTION, AND EXECUTION OF BUDGETS.

Most of the payments relating to national defence are made by the departments under authorisations to incur expenditure previously granted by the public authorities. The national defence services are compelled to furnish evidence in support of their applications, in order to obtain these authorisations. In all the countries examined by the Committee, except India, the grant of authorisations to incur expenditure is within the competence of the national representative bodies. Applications submitted by the national defence services are discussed in Parliament, and the proof as to the validity of these applications, together with the public discussions regarding them, generally provide the necessary information for ascertaining the real object of the expenditure. Sometimes, in exceptional cases, Governments are authorised by constitutional or legislative provisions to incur certain expenditure without previous authorisation from Parliament. This is the case in an emergency, when Parliament has been dissolved or is not in session, and the object of these provisions is to leave Governments a certain degree of freedom to incur expenditure required by certain circumstances. In such cases, however, the expenditure mostly has to be submitted to Parliament for ratification within a specified period, whether during its next session or before the end of the financial year.

1. Drawing-up of Estimates of Expenditure.

Estimates of expenditure, which are drawn up in all countries by the departments concerned, are generally co-ordinated by the Minister of Finance, whose duty it is to ensure a balanced budget.

Sometimes the Minister of Finance is assisted in this task by a committee or council (Budget and Treasury Committee in Belgium; State Council in the Netherlands. In the United States of America, the estimates are co-ordinated by the Budget Bureau, which is directly under the orders of the President.

In almost all countries, the Minister of Finance exercises a more or less considerable influence on the estimates of the other Ministers; in exceptional cases, he is entitled, on his own authority, to reduce the other Ministers' applications for credits.

This is the case in Belgium, Germany and Roumania. In the case of the United Kingdom, each several vote of the draft estimates is separately submitted to the Treasury for their sanction. New services requiring express Treasury approval must be submitted to the Treasury before insertion in the draft estimates.

The present financial difficulties, moreover, everywhere tend to increase the powers of the Minister of Finance.

In some cases even the legislature makes its influence felt in this administrative phase of the framing of the estimates.

For instance, in Roumania, proposals for fresh expenditure, before being drawn up in their final form, are submitted to a technical budgetary committee of the Chamber of Deputies, which has the right to accept or refuse the proposed new expenditure.

2. Draft Estimates.

The draft estimates are as a rule finally drawn up by a Council of Ministers (Government Council).

In the United States, however, they are drawn up by the President of the Republic, in the Netherlands by the Queen, in the Netherlands Indies by the Governor-General, and in India by the Governor-General in Council.

In all countries, the draft estimates are published; in most countries, these documents are on sale and are widely read. Usually the draft estimates contain detailed information

enabling variations in expenditure from one year to another to be followed and giving reasons for new expenditure.

Such information is supplied either in explanatory memoranda (Belgium, France, Italy, the Netherlands, Norway, Roumania, Sweden), in a message from the Executive (Switzerland, United States of America), or in the body of the draft estimate itself (Australia, Germany, Irish Free State, New Zealand, Poland, United Kingdom, Yugoslavia). In Japan, the draft estimates are published; they do not contain either an explanatory memorandum or detailed statements, but the latter are given in Parliament and reports of the discussions are published in the *Official Journal*.

The examination of the draft estimates and of the information they contain is usually of great value for estimating the real significance of the authorisations to incur expenditure under which payments are made.

3. Discussion of Draft Estimates in Parliament.

In all the countries considered by the Committee, except India, the draft estimates are submitted to Parliament for examination and approval.¹ The fact that the draft estimates are examined by representative national bodies, one of whose essential rights it is to determine public expenditure, constitutes one of the best guarantees for the publicity of expenditure. In another part of the report (Chapter XIX) the great importance of the discussions and votes of credits by Parliament will be indicated from another aspect. It is in fact in the course of these discussions and votes that the public authorities will have to explain how the credits granted agree with the obligations arising out of the Convention. The Committee has therefore attached special attention to the procedure for discussing estimates and voting credits.

The twenty-nine States which supplied documents to the Committee possess a Parliament or a legislative organ. The Parliament consists of two Chambers, except in Albania, Bulgaria, Finland, and Norway, where there is only one. In Norway, however, the Chamber is for certain purposes divided into two sections. In the U.S.S.R. the legislature (the Central Executive Committee of the Union) holds its powers from the Congress of Soviets.

In all countries with two Chambers, the combined draft estimates or the several departmental estimates are nearly always examined first of all by the Chamber of Deputies, which is generally the most directly representative of the nation.

The draft estimates are, however, submitted indifferently either to the Lower or the Upper Chamber in Belgium or to the two Chambers alternately from year to year in Switzerland. In Germany, the draft estimates are first examined by the Upper Chamber (Reichsrat) which consists of representatives of the Governments of the various States. In some countries with two Chambers, the financial powers of the Upper Chamber are in law or in fact extremely limited. This is the case in the United Kingdom, where the Parliament Act of 1911 provides that in certain circumstances a money Bill can pass into law notwithstanding the fact that the House of Lords has not consented to it. Up to the present, however, no money Bill has passed into law under this provision. In Roumania, only the Lower Chamber examines and discusses the budget; the Senate takes no part either directly or indirectly in discussing it. The Senate's approval is necessary only in order to vote special extraordinary credits (special budget) for large-scale works.

4. Preliminary Examination of Draft Estimates by Parliamentary Committees.

Subject to the above-mentioned powers of the Parliaments, the draft estimates are as a rule first examined by one or more committees, which are constituted in different ways.

In the United Kingdom, the entire House of Commons, in order to consider the draft estimates, transforms itself into a committee consisting of all the members of the House (Committee of Supply). In Roumania, a budget commission is appointed only by the Chamber of Deputies, since the

¹ In the case of India, the budget is finally sanctioned by the Secretary of State for India in Council. This Council consists of persons of distinction who have held office in India and competent persons representing the interests of that country.

Senate takes no part in the discussion of the budget. In the Netherlands, no actual committee is appointed: the draft budget is examined by sections of the Chamber.

The discussions in these commissions, committees or sections are usually not public.

In the United Kingdom, however, the meetings of the Committee of Supply are public. In Japan, representatives of the Press are allowed to attend discussions of the Budget Committee of the Chamber of Deputies.

The reports of the discussions by the commissions or committees are as a rule not published.

In the United Kingdom, however, the debates in the Committee of Supply are published in the same way as those of the other sittings of the House of Commons. In the United States of America, some of the discussions of the commissions which are of special importance for granting authorisation to incur expenditure are also published in the "Hearings". In Japan, Press representatives admitted to the meetings of the commissions sometimes publish accounts of them.

In almost all countries, the commissions or committees for examining the draft budgets draw up reports containing their observations.

In Germany, the financial commission of the Reichstag alone prepares a report; the Reichsrat makes no reports, but draws up a "protocol" recording its decisions. In the United States of America, the commissions do not make reports, nor does the Committee of Supply in the United Kingdom.

When commissions or committees draw up reports, these are almost always published.

In the U.S.S.R., the report of the Budgetary Commission of the Central Executive Committee is not published, but the speech delivered by the rapporteur of that commission to the Plenum of the Central Executive Committee is issued as a publication.

It should be mentioned here that the volume of the reports and records of discussions of parliamentary commissions differs considerably in different countries. They take the form, sometimes of a brief account of the principal observations made in the course of the discussion, sometimes of a complete record giving full details of the proceedings.

5. Discussion of Draft Estimates at Plenary Meetings of Parliament. When the draft estimates have thus been examined by the commissions or committees, they are discussed by Parliament in plenary session. In all the countries considered by the Committee except the U.S.S.R., the plenary meetings are public and the parliamentary discussions of the estimates are published in official documents which are more or less widely circulated.

In Yugoslavia, these reports are not officially published, but are kept in the Parliamentary archives, and any person interested may ask the Secretariat to produce them. In Norway, only a summary of the discussions is published. In Switzerland, the verbatim record of the discussions is not always published, but it is supplied on request to any person interested.

In many countries, the members of the legislature have the right to propose measures involving expenditure in the same way as the Government, and the text of their proposals may accordingly contain valuable information as to the object of the expenditure.

This is the case, with differences in detail, in Australia, Austria, Bulgaria, Czechoslovakia, Denmark, France, Germany, Italy, South Africa, Sweden, Switzerland, the United States of America, the U.S.S.R. and Yugoslavia. On the other hand, in the United Kingdom, by a practice embodied in the Standing Orders of the House of Commons, the right of initiating expenditure is reserved to the Government. In Japan, members of Parliament have no right of initiative in financial matters; in Poland that right is limited in practice. In New Zealand, members of Parliament have no right to propose an increase in expenditure.

In almost all countries, Parliament has the right to reduce the Government's estimates.

In the United Kingdom, however, motions in the House of Commons to reduce an estimate are in practice almost always rejected; if such a motion were passed, the Government would in all probability resign. In Japan, Parliament cannot, without the consent of the Executive,

reduce military expenditure provided for under the powers conferred on the Emperor by the Constitution and approved by Parliament in the budget of the preceding year. In the United States of America, if Congress cuts down the President's proposals, the latter may use his right of veto, but Congress may override this by two-thirds majority vote.

In countries with a two-Chamber system—apart from what has already been said in regard to the United Kingdom—the budget is voted by both Chambers, except in Roumania and Finland, where the Lower Chamber alone votes the budget.

6. Annual Nature of Credits.

In order to be able to make a useful comparison of annual expenditure with authorisations for expenditure, it is essential to know whether such authorisations are granted annually. If so, it will be easy to compare expenditure with credits, for all the necessary data for determining the true nature of the expenditure will certainly be found in the Finance Bill and in the annual discussion of that Bill.

In most countries, public expenditure is fixed each year.

In some countries, however, certain expenditure is authorised permanently or for several years (Consolidated Fund Services in the United Kingdom, Central Fund in the Irish Free State, Permanent and Continuing Credits in the United States of America). But whereas, in the United Kingdom and in the Irish Free State, military expenditure is in no case authorised permanently or for several years, but is voted every year (Supply Services), a fairly small part of the military expenditure of the United States is the subject of permanent authorisations.

It is certainly somewhat difficult to ascertain the true significance of expenditure effected in virtue of these permanent authorisations, for often it is necessary to go back some distance into the past to discover for what purposes these authorisations were granted.

In the same connection, mention may be made of the cases of Belgium and France, where credits for the defensive organisation of frontiers have been voted for several years. Expenditure may be effected in virtue of such authorisations up to the time of completion of the work.¹

In a fairly large number of States, there also exist credits of which the balance unexpended at the end of the "exercice" is carried forward to the following "exercice" or "exercice".

This is the case in Austria, Belgium, Finland, France, Germany, Italy, the Netherlands, Norway, Roumania, Sweden, Switzerland and the United States of America.

The right to carry forward applies sometimes to credits of every kind, but sometimes, and more frequently, only to credits for material for the execution of programmes (Belgium, France, Roumania). Sometimes the carry-forward must be expressly authorised by Parliament; sometimes it operates automatically in virtue of the laws and regulations concerning public accounts; but in this case the estimates generally mention the amount of the credits available for carrying forward, so that expenditure effected out of credits brought forward may always be compared with those credits themselves.

In some countries there is another practice that calls for mention: Parliament may authorise the national defence services to incur expenditure—*i.e.*, to conclude contracts and make purchases for the carrying out of manufacture or constructional programmes with a reservation that payment will be made or orders for payment given out of financial provision for subsequent years.¹

This occurs, for example, in various ways, in Belgium, France, Germany, the Irish Free State, India, Italy, Japan, and the U.S.S.R. The annual financial credits usually enable the actual purpose of the payments to be determined, but, to obtain more exact information, it will perhaps be desirable to refer back to the actual authorisations to incur expenditure.

7. Legal Significance of Authorisations for Expenditure.

In order to determine the object of expenditure at the time of authorisation, it is necessary to know the exact significance of the authorisation to incur expenditure.

Such authorisation always covers each successive stage of payment—*i.e.*, the department so authorised cannot incur or issue orders for expenditure or make payment save within the limit of the credits granted to

¹ See, on this subject, Chapter XVI.

it. But, if the periods during which these successive steps may be taken are considered, very appreciable differences will be observed:

(a) Thus, in some countries, the vote limits the *payments* that may be made during the financial « *exercice* » (including any period supplementary thereto). These payments are entered in the accounts for the year in question; the relationship between the authorisation and the payment is directly established by the accounts, and the explanations of the accounts may easily be found.

This is the case in the following countries which have no supplementary period: Australia, the United Kingdom, India, Irish Free State, New Zealand, Norway, and the U.S.S.R.; and in the following countries, which have supplementary periods of varying length: Bulgaria, Denmark, Finland, France, Japan, Netherlands, Poland, Roumania, Sweden, Switzerland, and Yugoslavia.

The relation between authorisations for expenditure and arrears of payments appearing either in the budget accounts or in special accounts incorporated in the general accounts (Finland and Yugoslavia) will sometimes be rather difficult to determine, because these arrears of payments, the amount of which is inconsiderable, are shown in the accounts under comprehensive heads. We shall return to this point in Chapter VII.

(b) Sometimes, too, an authorisation limits the amount of the *orders for payment* that may be issued during a financial « *exercice* ». In that case, the accounts show at the end of the « *exercice* », opposite the authorisations to incur expenditure; the amounts of the orders issued; they also show the amounts of payments side by side with those of the orders for payments, but there will sometimes be appreciable differences between these two figures, because all the orders for payment have not given rise to payments before the end of the « *exercice* ». Arrears of payment are included in the budget accounts for the following years (Austria, Czechoslovakia, Hungary) or in special accounts (Belgium) and it will be impossible to compare them directly with the original credits in virtue of which the expenditure was incurred.

(c) In some countries in which the authorisation limits the *commitments* that may be entered into during the financial year, the final accounts for the « *exercice* » show the commitments entered into during the year, and the difference between credits and commitments is in principle cancelled. With accountancy systems of this kind, the connection between authorisations and payments is much looser. In order to ascertain the original purpose of the payments made during any « *exercice* », the expenditure authorised for several years must be interpreted. Such is the case in Albania, Italy and the United States of America; but the difficulties are lessened owing to the fact that the accounts give each year, opposite the remaining credits, the payments charged against them.

(d) Another factor arises when an attempt is made to determine how far payments may be compared with authorisations for expenditure. It must be ascertained for how long a period it is possible to enter payments under the accounts for a particular year. In some countries, all payments made during a year, irrespective of the origin of the credits, are included in the accounts for the year in question.

Such is the case in Albania, Australia, Austria, the United Kingdom, Czechoslovakia, India, the Irish Free State, New Zealand, Norway, South Africa, the U.S.S.R. and the United States of America.

Comparison of the credits for any given year with the payments during that year will, no doubt, be possible in certain instances only—viz., in countries where the credit limits commitments or the issue of orders for payment (Albania, Austria, Czechoslovakia, United States of America), as payments are necessarily made in the course of the year which relate to commitments entered into under previous authorisations while payments are not made in respect of all the commitments or orders for payment entered into or issued in the course of the year.

In other countries there are additional periods varying from one to twelve months¹. If the periods are fairly long, the comparison between the credits for the year and the

¹ Belgium	10 months	Japan	1 month
Bulgaria	3 "	Netherlands	12 months
Denmark	1 month	Poland	3 "
Finland	2 months	Roumania	3 "
France	4 "	Sweden	2 "
Germany	1 ½ "	Switzerland	2 "
Italy	1 "	Yugoslavia	5 "

payments made out of those credits will be of greater significance, for the longer the period the less is there outstanding to pay at the end of the year.¹

**8. Date of
voting Annual
Expenditure.**

It is also of interest to know at what moment the authorisations to incur expenditure are given: before the beginning of the financial year, during the year (at one single moment or successively) or after the end of the year for the purpose of regularising or rectifying the estimates.

The principle generally followed is that expenditure must be passed before the beginning of the financial year. In certain countries, such as Sweden and Italy, the estimates are as a constant practice passed before the beginning of the financial year, but circumstances may cause a more or less considerable delay in the passing or adoption of the estimates.

In some countries, the estimates are systematically passed during the financial year. This is the case in Australia, Belgium, the United Kingdom, India, the Netherlands, New Zealand, etc.

If occasionally, or owing to a constant tradition, the estimates may not be passed at the beginning of the financial year, the public services must still be provided for. For this purpose, however, very different methods are adopted. These must be known, for we shall be led to a certain extent at least to look for the real significance of expenditure in the provisional authorisations necessitated by the delay in passing the estimates. In some countries, the executive is entitled to authorise expenditure until the estimates are passed or adopted.

This is the case in Norway, where the Government may, without the authority of Parliament, make the payments necessary for the working of the public services.

Sometimes the budget for the preceding year is automatically re-applied.

This is the case in the Netherlands, Poland and Sweden. In Roumania, the budget of the previous year is re-applied by royal decree. In Japan, it is re-applied by Imperial decree and in Switzerland by a decision of both houses of the Legislature.

But more often *douzièmes provisoires* or monthly votes on account (Belgium, France, Italy, Yugoslavia) are voted in various forms.

In the U.S.S.R., expenditure calculated from the budget estimates for the first quarter is effected by a decree of the Central Executive Committee. In the United Kingdom, the working of the administrative services is provided for from April 1st, when the financial year opens, until about the month of August by means of a vote on account. An Appropriation Act is then passed which gives the force of law to the appropriation of the supplies of money granted by resolution of the House of Commons during the session to the services for which they were voted. The procedure in regard to the estimates of the defence departments is different, but leads to a similar result. In Norway the budget is in practice passed before the beginning of the financial year. When the adoption of the budget is delayed in Germany, the Reichsrat and Reichstag vote a preliminary budget (*Nothaushalt*) which is replaced by a normal budget as soon as possible. In quite exceptional cases, however, the President of the Reich can promulgate a provisional budget by decree under Article 48 of the Constitution.

In most countries, supplementary credits are granted or may be granted during the financial year, and it is necessary to look into them to see the significance of the expenditure they authorise. In some countries, towards the ends of the year, excess credits are voted if necessary; an examination of these may also be of interest.

This is the case in the United Kingdom (excess votes), France, India, Irish Free State, the Netherlands, Switzerland. In Denmark, a veritable amending budget is passed towards the end of the year.

¹ On this subject, see Chapter XIX.

**9. Special
Prerogatives of
the Executive.**

In countries where the authorising of expenditure is a prerogative of the national representative body, it must be ascertained whether still, in exceptional circumstances, the executive may not on its own authority incur expenditure without authorisation of Parliament. In such cases, the guarantees afforded by publicity may be lacking. In almost all countries, when Parliament is prorogued, and in certain circumstances defined by law, the Government is entitled to authorise expenditure, provided, however, that the situation be put in order at the first meetings of the Chambers. In that case, the discussions which take place in Parliament enable the purpose of the expenditure thus incurred by the Government to be sufficiently determined. In some countries, however, the Executive has special prerogatives.

Thus, in Germany, during the execution of the budget, expenditure not provided for in the budget or not sufficiently covered may be incurred, exceptionally and in case of urgency, with the consent of the Minister of Finance. Expenditure not authorised by law must be specially mentioned and accounted for in the accounts and must subsequently be approved by Parliament. Authorisations for such expenditure in the case of sums exceeding 10,000 marks must be notified every quarter to the Reichstag. In Norway, the executive can exceed the expenditure authorised by the budget on its own authority; the law, moreover, places no restriction on the extent to which this right may be exercised. If, however, the sum is large and if Parliament is sitting, the executive must obtain approval for such excess expenditure. In Yugoslavia, expenditure for the current year may be met out of Treasury Funds (Treasury Working Capital Fund) apart from the budget properly so called. Such expenditure may be authorised by law, but may also be authorised by a decision of the executive approved by the Finance Law of the following year. When it is added that such expenditure is given in aggregate figures in the accounts of this Working Capital Fund annexed to the budgetary accounts, it will be realised that it will sometimes prove difficult to ascertain the exact purpose of such expenditure.

**10. Budgetary
Differentiation.**

The greater the number of subdivisions in the budgets and accounts and the clearer these subdivisions are the easier it is to ascertain the significance of the payments. In almost all countries, national defence expenditure is split up into a fairly large number of divisions and subdivisions the headings of which give a clear idea of the purpose of the expenditure. The degree of differentiation in a budget or account cannot accurately be determined from the mere number of headings composing it. The differentiation lies, not merely in the number of divisions, but in the rational classification of expenditure according to its character and purpose. Many examples might be cited of expenditure on a large scale entered under a single heading of an account, and conversely other expenditure being divided under various headings although the amount is relatively very small.

Thus, in the combined statement of the United States, one item of \$3.44 is shown separately as an appropriation, while another appropriation comprises in itself alone an aggregate sum of \$152,011,650 for pay or emoluments of officers, petty officers and other ratings in the service, in the reserve or on pension. In Yugoslavia, the total sum for pay of officers and civilian personnel employed in the army services is given in a single item ("positie"), the aggregate amount being 111,888,670 dinars, while the sums shown under some headings are no more than 10,000 or 15,000 dinars. Similar examples might be given for most countries.

Although differentiation does not depend solely on the number of subdivisions but also on the clearness of the headings and the judicious allocation of expenditure, it is nevertheless true that the number of headings constitutes an essential factor of differentiation. In this connection, it will be noted that some budgetary accounts contain a very large number of divisions.

This is so, for example, in the case of France. In Italy, the budgetary accounts are presented under fairly numerous chapters, but the subdivisions are few, so that the grand totals of certain chapters sometimes apply to rather different objects. The same is true of Japan and Norway. In the United States of America, the accounts contain a very large number of subdivisions, some of which, however—*e.g.*, that referring to the pay of the Navy—give one single figure for different items: pay of officers, petty officers and other ratings, expenditure on reserves, transport, etc. In Yugoslavia, the budgetary accounts are very detailed, but some headings for the expenditure on personnel or supplies only show lump sums affecting different categories of personnel or supplies. If a limitation Convention were concluded, the Yugoslav delegation intimated that its Government would consider the possibility of supplying the necessary specifications. The

published budgetary accounts of the U.S.S.R. only show one total figure for defence expenditure which gives no idea whatever of the nature of the expenditure. The U.S.S.R. delegation, however, gave the Committee much more detailed accounts than those published, and intimated further that, if a Convention directed towards real disarmament were concluded, there would be no obstacle to the introduction, into the budgetary system and public accounts of the U.S.S.R., of such amendments as would best ensure control of the performance of the obligations assumed under the Convention.

The following table showing the number of subdivisions in the closed accounts of the national defence ministries of States whose returns have been studied by the Committee will give a clearer idea of the differentiation of accounts:

Albania	Chapitres	47
Australia	Subdivisions	76
Austria	Paragraphs and some- times Posten	17
Belgium	Articles	98 plus the Colonies.
United Kingdom	Sub-heads	399 plus the Colonies.
Bulgaria	Paragrafs	85
Canada	Votes	25
Czechoslovakia	Polozka	99
Denmark	Numre	78
Finland	Monrenter	52
France	Chapters, Articles or Subdivisions	804 plus the Colonies.
Germany	Titeln	300
India	Sub-heads	658
Irish Free State	Sub-heads	35
Italy	Capitoli	232 plus the Colonies.
Japan	Articles	148
Netherlands	Artikel	220 plus the Colonies.
New Zealand	Items	271
Norway	Articles	147
Poland	Rozdialy	80
Roumania	Articolul	202
South Africa	Sub-heads	80
Sweden	Anslag	170
Switzerland	Postes	353
United States of America	Heads	319
U.S.S.R.	Article	1 ¹
Yugoslavia	Posizie	306

It should, however, be borne in mind that, though greater differentiation may make it easier to supervise the execution of the budget, it causes administrative complications and delay in submitting the accounts.

The Conference will have to take due note of this consideration. From the point of view of the Convention, the ideal would of course be that, in each country, differentiation should be carried to fairly great lengths, so as to enable the figures given in the closed accounts to be transferred direct into the Model Statements, without any need to compute specially the figures for any subdivision of the accounts.

11. Virements.

The more strictly the divisions and subdivisions according to which budgets are passed or submitted are adhered to during the execution of the budget—*i.e.*, the fewer the number of *virements* between the budgetary headings—the more accurate will be the comparison between expenditure and credits

¹ Divided into fifty-seven paragraphs in the reconciliation table.

passed. Where *virements* are possible, an endeavour will have to be made to trace in the accounts any changes of allocation of credits made in the course of the execution of the budget.

- (a) *Possibility of virements.* In this respect, wide differences exist between the various countries. In some it is possible to make *virements* from one national defence budget to another.

This is the case in South Africa, where such *virements* can be made only with the approval of the Treasury. In India, *virements* between budgets can be made with the approval of the Governor-General in Council or the Secretary of State for India. In some countries, more particularly in the Irish Free State, this practice is allowed, but is in actual fact very restricted and subject to special supervision. In the U.S.S.R., similar *virements* exist but are governed by very strict rules.

In some countries, again, *virements* may be made between the *divisions* of each budget. By "division" in the varying terminology used in the different budget headings is meant those headings on which a vote is taken in Parliament or by the legislative organ which prepares the budget. The legal significance of such a vote consists in the assignment to a particular object or service of a fixed amount which the Government must not use for another object or service. That is the essence of differentiation. *Virements* between "divisions" so defined are rarely possible, and when permissible are subject to particularly restrictive rules. By a "subdivision" will be meant all lesser categories into which the Government divides the expenditure of each division, fixing the amounts on the basis of the estimates for the various services. These headings are not passed individually or by a special decision of the legislative organ, so that *virements* are generally possible between these subdivisions under certain more or less restrictive conditions.

Virements between divisions of the budget are allowed, by various methods of application, in Austria, Belgium (in exceptional cases), United Kingdom (but only in the case of the estimates of the defence departments), Denmark, Germany (where *virements* are possible only in respect of a few closely interconnected items specified in the budget), India, the Irish Free State, Norway, Poland (though in this country votes for personnel cannot be increased out of votes for supplies), South Africa and the U.S.S.R.

On the other hand, in Australia, Belgium, Czechoslovakia, Finland, France, Italy, Japan, the Netherlands, Roumania, Sweden, Switzerland and Yugoslavia, *virements* between budgetary divisions are prohibited. The same applies to the United Kingdom as regards the Civil Estimates.

In almost all countries, *virements* can be made between subdivisions of the budget.

Only in Japan, the Netherlands, Roumania, Sweden, Switzerland and the United States of America are *virements* entirely prohibited. *Virements* used not to be permissible in Yugoslavia, but paragraph 36 of the Finance Act for the financial year 1931-32 authorises *virements* between all the headings for expenditure on army and navy supplies subject to the approval of the Court of Audit.

To obviate *virements*, some budgets have reserve funds which are drawn upon during the year to cover deficiencies in certain credits. This is the case, for example, in Italy, Japan and Yugoslavia; the practice entails no serious inconvenience as regards the reconstitution of actual expenditure figures, since payments made by drawing on the reserve funds are entered in the corresponding chapters of the closed accounts.

- (b) *Possibility of tracing expenditure accounts in respect of which virements have been made.* Where *virements* can be made in circumstances above described, it is generally possible to find in the accounts exact particulars of the changes made in allocating expenditure during the execution of the budget.

In Australia and South Africa, for example, these particulars can be found in the annual report of the Controller and Auditor-General. In Denmark, the *virements* are authorised by the "rectification budget" submitted at the close of the year. In France, the Irish Free State, Norway and Yugoslavia, the closed accounts give all particulars and the necessary legal or statutory provisions regarding changes made in the allocation of votes. In Poland, in the absence

of exact information in the budgetary accounts, the report of the Court of Audit mentions all re-allocations. In the United Kingdom, the Treasury must report to Parliament the *virements* made between the votes of the defence departments' estimates, and these *virements* receive parliamentary sanction in a subsequent Appropriation Act. Only in Bulgaria and Czechoslovakia do the accounts supply no information regarding *virements*.

It will therefore be seen that, as a general rule, it is possible to ascertain the changes made in the allocation of expenditure and thus, by referring to the accounts or to the reports drawn up by the various authorities on those accounts, to determine the real purpose of the expenditure with a view to its being correctly transferred to the Model Statement. For the execution of a Convention for the limitation of expenditure, however, it would be desirable to restrict the power to make *virements* to a degree compatible with the administrative needs of States.

**12. Publication
of Budgets.**

In almost every country, the budgets passed are officially published.

This is the case particularly in Albania, Australia, Belgium, the United Kingdom, Bulgaria, Czechoslovakia, Denmark, Finland, France, Germany, Irish Free State, Italy, Japan, the Netherlands and Netherlands Indies, New Zealand, Norway, Poland, Roumania, South Africa, Sweden, Switzerland, the United States of America, U.S.S.R. and Yugoslavia.

The extent to which these documents are distributed, however, differs in different countries.

Thus, in the United Kingdom and Norway, the budgets passed are placed on sale to the public. In the U.S.S.R., the budget passed—which contains only one figure for expenditure on national defence—is not placed on sale, but is sent free of charge to public libraries and to certain institutions.

Chapter VI.

SUPERVISION OF THE EXECUTION OF THE BUDGET AND ACCOUNTS.

The greater part of payments are entered in the budget appropriation accounts. The essential object of these accounts is to show, under the several budgetary divisions, the use made by the public services of authorisations to incur expenditure. Certainty as to whether the sums shown in the final accounts have been employed for the purposes defined in these authorisations and whether their amount represents exactly the value of the services rendered and of the deliveries effected obviously depends on the way in which the successive acts for the settlement of the expenditure (commitment, liquidation, order for payment and actual payment) have been supervised and checked—in a word, on the rules which govern the whole financial administration of the States.

For these reasons the Technical Committee attached great importance to a knowledge of the principles of organisation and of the rules for the working of internal supervision over public finance.

The preparation of a Convention on limitation and publicity of expenditure calls for a knowledge of the relative value of the internal guarantees of supervision; it involved for the Committee the necessity for carrying out a study of the various systems of supervision practised in the different States whose information was submitted to it, with a view to determining the degree of efficacy of those guarantees and the extent to which reciprocity in the matter of obligations contracted by States could be ensured.

Internal supervision of public finance presents in every country two aspects, which will be dealt with in turn: *previous or preventive supervision* during the execution of the budget and *a posteriori supervision*—i.e., after payment has been made, subsequent to the final act in the settlement of the expenditure.

These two methods of supervision, and the superposition of which is necessary to ensure the proper execution of the budget, are of unequal value from the standpoint of the actual object of the Committee's work. From the point of view of a Convention for the limitation of expenditure and publicity, the legal justification of which is based on the payments effected during the financial year, the essential consideration must be to deduce the guarantees offered by the system of supervision over the public accounts.

The production of the published accounts makes it possible to ascertain at the close of the financial year the figures for actual payments. It also enables the payments made to be compared with the credits passed. If States subscribe to a Convention for the limitation of expenditure, it will be at the moment when these authorisations are established, as the Committee of Experts on Budgetary Questions stated that, presumably, "the competent organs will take the necessary steps to explain publicly how the credits which have been asked for may be reconciled with the limits fixed by the Convention". The credits, the amount of which ultimately determines the volume of payments, will have to be calculated with sufficient accuracy to ensure that there is no risk of contractual undertakings being violated. It is essential then to determine, for each country, whether the national defence services might not disregard the limits thus traced out for them. But the duty of the bodies responsible for preliminary supervision, whose action is extended over the whole period of the execution of the budget, is in fact to prevent the various administrations from exceeding the limits which Parliament has assigned to them. From the standpoint, then, of the Convention itself, it is clear what importance attaches to the rules which govern supervision during the execution of the budget.

The Committee was moved by a further consideration to examine this question of preventive supervision: the audit of the closed accounts is in no case independent of the various forms of supervision during the execution of the budget; it is based to a large extent on the results of the supervision carried out prior to payment over acts relating to commitment, liquidation or orders for payment in regard to public expenditure. For example, should a comptroller refuse to endorse a commitment, this would enable the audit authority later to call to account the authority which had effected the expenditure despite such veto. Preventive supervision stops any irregularity at its source and prevents it, so that it may not be necessary to deal with the matter later.

* * *

A. Preventive Supervision during the Execution of the Budget.	In order that the function of preliminary supervision may prove effective, it must be entrusted to bodies independent of the authorities whose acts are to be supervised. (a) <i>Degree of independence of the bodies responsible for supervision during the execution of the budget.</i>	1. In some countries, a Court of Audit possessing absolute independence as regards the executive and the Legislature is responsible either wholly or in part for the exercise of preventive supervision.
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This is the case in Albania, Belgium, Bulgaria, Italy, the Netherlands, Norway, Poland and Roumania. In Czechoslovakia and Yugoslavia, the Court of Audit exercises supervision during the execution of the budget quite independently of the various ministries, although its members come under the same regulations as other officials.

In the United States of America, this supervision is carried out by the Comptroller-General, a high official who in practice cannot be removed from office. He takes high position in the country and has special offices and agents to carry out his supervision. In the United Kingdom, supervision over exchequer issues during the execution of the budget devolves upon the Comptroller and Auditor-General, who is a statutory officer and cannot be removed from office except by the Crown on an address from both Houses of Parliament. Supervision is carried out in Sweden by the Central Accountancy Office, the members of which are entirely independent both of the Government and of Parliament, and by Audit Sections, the officials of which, appointed by royal patent, may not be dismissed except by judgment of a High Court. In the U.S.S.R., the People's Commissary for Workers' and Peasants' Inspection carries out preventive supervision during the execution of the budget; the Commissary is independent both of the People's Commissary for Military and Naval Affairs and of the People's Commissary for Finance.

2. In various countries, Parliament or the legislative bodies participate in the supervision of the execution of the budget by delegating to some of their members or to a commission the duty of supervising the financial administration as a whole either temporarily or permanently (Austria, Czechoslovakia, Finland, Poland, Switzerland, U.S.S.R.). In many States having a parliamentary system, the finance commissions share in the exercise of preventive supervision, inasmuch as they have the right in certain circumstances to ask the Minister for explanations of commitments in regard to certain expenditure.

3. Almost everywhere, the *Minister of Finance* possesses powers of supervision over acts relating to the execution of the budget. In general, this power is tending to increase, and this tendency inevitably becomes enhanced at periods of economic crisis, when the necessity for balancing the budget calls for constant supervision of the whole financial administration by a centralising organ.

In the United Kingdom, the Chancellor of the Exchequer supervises commitments in respect of expenditure. The Treasury may always agree to the insertion, in the estimates of expenditure relating to the operation of new services, but none of this expenditure can be the subject of a commitment—even if Parliament has approved the estimates in question—without the special authorisation of the Treasury. The same powers are held by the Minister of Finance in the Irish Free State and in India. In the last-named country, the Minister

of Finance also exercises supervision, through agents directly responsible to him, over the Military Accountants-General, attached to the Ministry of Defence but entirely independent of the heads of that Ministry. A similar organisation is found in France since the adoption of the law of August 14th, 1922, where the Controllers of Commitments attached to each ministerial department are appointed by the Minister of Finance and are directly responsible to him alone; and in Germany, where the Minister of Finance can delegate a representative to the various Ministries to obtain from the officials responsible for financial supervision in those Ministries any information he may require. The representative may demand that all financial measures shall be submitted to him for approval. There are, however, no officials of this kind attached to the Ministry of the Reichswehr, where the Minister of Finance nevertheless has an information agent, in the person of the head of the Budget Section. In Yugoslavia, Accountancy Sections, composed of representatives of the Minister of Finance, act on the latter's behalf in the various ministerial departments. In Italy, the Minister of Finance has a General Accountancy Office, and also Accountancy Offices attached to the ministerial departments; by means of these Offices, the Minister of Finance also exercises supervision over all budgetary operations. The Minister of Finance exercises higher supervision in the Netherlands, Poland and Belgium, and, in the last-named country, he delegates to the several Ministries representatives who exercise supervision independently over the execution of the budget.

It may also happen that supervision over commitments is exercised by supervisory bodies responsible both to the Minister of National Defence and to the Minister of Finance.

That is so in Denmark, in the case of the Auditors-General appointed by the King on the proposal of the Minister of Finance, and in Germany in the case of the Rapporteur for the budget, a special official appointed on the proposal of the Minister for National Defence.

4. The *National Defence Ministers* also have certain supervisory organs directly responsible to them.

In the United Kingdom and the Irish Free State, there are Accounting Officers, permanent heads of departments, individually responsible for the proper execution of the budget of their particular ministerial departments. In the United Kingdom, these officials cannot be appointed or dismissed except with the consent of the Prime Minister. They are responsible not only to their Minister, but also to the Public Accounts Committee of the House of Commons. In the Irish Free State, the Accounting Officer of the Department of National Defence is appointed by the Minister of Finance.

In other countries, preliminary supervision is exercised on behalf of the Ministers of National Defence by Supervisory and Accountancy Officers (*e.g.*, in Czechoslovakia, the Netherlands and Poland), or by supervisory bodies (Czechoslovakia, France and Poland), who exercise, quite independently of the command, very strict supervision over the whole administrative system. The general reports of these supervisory bodies (*e.g.*, in France) may even be communicated to Parliament. Similar independent action devolves in Norway on the Intendance Service, which supervises the execution of the budget directly on behalf of the Ministry of National Defence. In the U.S.S.R., the Financial Administration of the Red Army is responsible for supervision over the use of all funds placed at the disposal of the People's Commissaries for the Army and the Navy. Similar duties are entrusted in Switzerland to the Central War Commissariat.

5. In another system of preventive supervision, supervision is carried out by *certain banks* entrusted with the duty of effecting payments (*e.g.*, the State Bank in the U.S.S.R. and the Bank of Japan), or by the *public accountants financially responsible* (*e.g.*, in France, Poland, Roumania or in Yugoslavia) over the issue of payment orders. This last-named method of supervision is certainly no less effective than the other forms of preventive supervision described above and is, moreover, often superposed upon the latter with a view to supplementing their effects. The banks effecting payment exercise supervision over the issue of payment orders quite independently, and ascertain whether credits exist. The public accountants under the authority of the Minister of Finance and financially responsible for the regularity of their payments are entirely independent of the Ministers authorising the payments, in virtue of the fundamental principle stipulating, in the countries concerned, that there shall be no connection between administrators and accountants and that no person may exercise both functions. They ascertain the existence of vouchers, scrutinise the rights of creditors, and make sure that the services

have really been rendered, that the deliveries have really been effected and that credits exist under the budgetary head to which payment is to be charged. In some States, as will be seen later, the Courts of Audit are responsible only for audit subsequent to payment, but they none the less exercise preventive action during the execution of the budget by reason of the fact that the accountants are ultimately answerable to them and that the Courts of Audit possess jurisdictional powers which are often employed against the accountants.

Thus, in every country, though in varying forms, the principle of the independence of the bodies responsible for supervising the budget during execution is applied.

(b) <i>Powers of the bodies responsible for supervision during the execution of the budget.</i>	It is not, however, sufficient to determine the degree of independence of the bodies responsible for supervision. In order to give a considered opinion on the efficacy of their action, it is essential first and foremost to know the extent of their powers. The Committee accordingly sought to ascertain how supervision was actually carried out during the execution of the budget.
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1. The *Minister of Finance*, whose supervisory functions are tending in every country to increase, mostly exercises supervision by means of an examination of the accounts of the Ministries, those accounts being sent to him on fixed dates. In almost every country he periodically allocates funds among the ministerial departments, and this allocation constitutes a kind of intermediate preventive supervision between supervision of commitments and that of the orders for payment, through the general assignment of the funds so allocated to the various categories of expenditure.

2. Supervision, properly so-called, over *commitments, liquidation and the issue of orders for payment* is carried out: in the *United Kingdom and the Dominions* by Accounting Officers, whose degree of independence has been described above and, as regards certain commitments (which are not expressly provided for under a budgetary law and the regularity of which may be open to doubt), by the Treasury itself. In the *United Kingdom*, if the Accounting Officer receives from the head of the Ministry for which he is responsible an order to make a payment which he considers irregular, he must, if his objection is overruled, bring the matter to the notice of the Treasury and the Comptroller and Auditor-General.

In *Germany*, the special official responsible for the budget has the right to object to any commitment or any payment order. The Minister under whose authority he is placed may, however, suppress this right on his own responsibility.

In *Belgium*, supervision over commitments is exercised by delegates of the Minister of Finance attached to the various Ministries. These officials may call for any documents, particulars and explanations relating to commitments, irrespective of the nature of the expenditure. They transmit their observations both to the Minister of Finance and to the Court of Audit. Their independence of the Ministry with which they work is fully assured by a special statute. No disciplinary penalty may be imposed on them without the previous consent of the Court of Audit. It is the duty of the supervisors of commitments to refuse endorsement when the expenditure is not in order. The Council of Ministers may, however, order these supervisors to comply, but a copy of the decision of the Council of Ministers is sent to the Court of Audit. The Court of Audit endorses payment orders after it has ascertained that the expenditure is in order and that credits are available. When the Court refuses to sign, it informs the Council of Ministers of the reasons for this refusal. If the latter considers that payment should be proceeded with, the Court endorses the document with a reservation and at once reports the matter to the Chambers.

In *Denmark*, the Auditor-General appointed by Royal letters patent to each ministerial department supervises all acts connected with the execution of the budget; he may be authorised to carry out administrative investigations.

In the *United States of America*, all settlement warrants signed by the Secretary of the Treasury or by officials appointed by him must be countersigned by the Comptroller-General. All accountable warrants issued to a Disbursing Officer are transmitted to the General Accounting Office, which is immediately under the Comptroller-General, before any action is taken thereon by the Secretary of the Treasury. Cheques issued under these settlement warrants and accountable warrants are charged to the corresponding credits in the books of the General Accounting Office. This office and the Comptroller-General are thus able to see that the credits are not exceeded.

In *France*, the supervisors of commitments may refuse to authorise a commitment. In such case, the authority desirous of entering into that commitment usually gives way. If it refuses to do so, the supervisor of commitments sends back the dossier, without signing it, to the

Director concerned together with an explanatory note. If an agreement is not reached, the Director may either withdraw his application or refer the matter to the Minister, who submits it to the Minister of Finance: the latter's decision is final.

In *Italy*, the Court of Audit is required to endorse commitments and payment orders and also the decrees prepared by the departments. It is entitled to refuse: in this case the text of the Court's decision is transmitted by its President to the Minister concerned. If the Minister is not in agreement with the Court, the decision is examined by the Council of Ministers. If the Council of Ministers is of opinion that the commitment should be entered into, the Court is required to reconsider the matter. If it maintains its opinion, the commitment or the decree in question can only be registered "with a reservation". Commitments registered with a reservation are communicated periodically to Parliament. Moreover, in Italy, the heads of the Accounting Office endorse the commitments and payment warrants prepared by the administrative offices. If a commitment or payment warrant is not in order and the head of the office does not feel able to endorse it, he notifies the Minister to whom he has been attached by the Minister of Finance. If the Minister considers that the commitment or payment order should be carried out, he must issue a written order to the head of the Accounting Office, to which effect must be given. The order must be signed by the Minister himself, and the head of the office must communicate it to the Court of Audit together with the commitment or payment order. But the Minister may issue this order only if credits are available under the chapters concerned and if the expenditure is not charged to a chapter other than that on which it should properly be borne.

In *Japan*, the Bank of Japan, a private institution vested with the powers necessary to effect State payments in accordance with the provisions of public law, makes sure that the payment warrants (cheques) are in order and that the amount of the cheques charged to a credit does not exceed the amount of that credit.

In *Norway*, the Court of Audit has the right at any moment to send supervisors to carry out investigations on the spot. These supervisors are accompanied by a representative of the Ministry concerned. They may carry out any investigations which they may consider expedient during the execution of the budget.

In the *Netherlands*, all documents relating to expenditure are sent to the Court of Audit, which keeps an account of and checks them; the results of its investigations are sent periodically to the Ministers concerned. During the execution of the budget, the Court of Audit may order local investigations to be carried out covering all accountancy documents and also the cash in hand. It is the duty of the Minister of Finance to make provision for payments which are usually effected through a postal transfer service. Before giving orders for payment, the Minister of Finance satisfies himself that the expenditure is in order. Moreover, any document involving a commitment relating to national Defence must be endorsed by the head of the Accounting Office of the Ministry of National defence; before endorsing it, the latter must ascertain whether the expenditure is provided for in the budget, whether the credit is sufficient and, in so far as the amount of the expenditure is not determined by the legal or administrative provisions, whether it is expedient. All such claims paid direct by the Postal Transfer Service are also checked in advance by the Accounting Office of the Ministry of National Defence. This office keeps a special account of its supervisory operations.

In *Poland*, the supervision exercised by the Court of Audit covers the examination of contracts and commitments, and the checking of cash in hand, inventories and accounts. It is carried out by means of the local verification of all works and supplies. The Minister of Finance also exercises a higher supervision over commitments.

In *Roumania*, the preventive supervision over commitments is exercised by auditor-advisers representing the Court of Audit and attached to each Ministry. These supervisory agents must refuse endorsement if credits have been exceeded or the expenditure is wrongly appropriated.

In *Sweden*, supervision during the execution of the budget is exercised in the various ministerial departments by Audit Sections, which must make sure that the commitments have been entered into in accordance with the existing laws and regulations, that they have been charged to the corresponding credits and that the latter have not been exceeded.

In *Switzerland*, commitments are supervised by the Accounting Office and payment orders by the Department of Finance.

In *Czechoslovakia*, the Accounting Office is responsible for the regularity of all payment orders and must therefore examine all vouchers.

In the *U.S.S.R.*, the Finance Department of the Red Army alone has the right to issue warrants payable by the State Bank. Before issuing an order of this kind, the Finance Department satisfies itself that the payment is formally in order. It may also carry out investigations on the spot with a view to supervising the use made by local services of the funds placed at their disposal. All payments are made by the State Bank; if the credits periodically assigned to the officials issuing payment orders are exhausted, the Bank must refuse payment of bills.

3. In certain countries (France, Poland, Roumania, Yugoslavia), supervision over payment orders assumes a particularly important form, to which reference has already been made. In those countries, the issue of payment orders and warrants is supervised by *Treasury agents* on the principle of separation between the administrative officials and the Public Accountants. Before being handed over to the creditor, the payment warrant is sent by the official issuing it to the Accountant, together with the vouchers certifying that the service has been rendered. The Accountant must on his own financial responsibility satisfy himself that these documents are authentic and in order and that a budgetary credit is available. The financial responsibility of the Accountant is usually guaranteed by means of the provision of security, mortgages or liens on his property. He may be made responsible for any irregular payment. If the Accountant considers that the payment order is illegal, he must refuse to affix the words which usually denote his approval: "Seen"—"Payment authorised."

When these words have been affixed, the warrant is returned by the Accountant to the official who issued it. The efficacy of this supervision cannot be denied. The Accountant makes sure that the credits placed at his disposal have not been exceeded and that the documents concerning purchases, conditions attaching to the award of contracts, memoranda, statements to the effect that works have been completed and accepted, produced in support of the warrant, are in accordance with the wording thereof; he is thus able to prevent improper appropriations and the overstepping of credits. He exercises a real supervision over all the successive acts of the officials issuing payment orders.

The supervision exercised by the Public Accountants also afford valuable data for final audit. The accounts of the officials issuing payment orders and the accounts of the Treasury agents are kept separately. The Ministers issuing orders for payment keep a general account of payment orders and payments. The Minister of Finance keeps a general account of payments. Thanks to these two parallel accounts based on the same data, the auditing of the accounts of the Ministers can easily be effected by checking all payments with the Central Department of Finance.

Moreover, in view of the conflicting interests of the official issuing the payment order and the Accountant, agreement between the accounts of these two classes of agents constitutes very strong evidence in favour of their accuracy.

B. Final Audit.

Notwithstanding the efficacy of the various forms of preventive supervision and its valuable contribution to the work of final audit, it was to the audit of the closed accounts, however, that the Committee devoted its chief attention, since the object of the latter is to attest with the greatest possible degree of certainty the accuracy of the *payment* figures which are to serve as a basis for the Model Statements.

In the first place, the Committee endeavoured to define the degree of independence of the organs responsible for final audit. Secondly, it attempted to define the functions and means of action of the auditing bodies and to explain the broad outlines of the process of investigation by which they are able to authenticate the figures entered in the final accounts.

(a) Degree of independence of organs responsible for final audit.

1. The examination carried out by the Committee showed that there are certain main types of auditing offices or organs, some of the general features of which have already been mentioned in so far as they also apply to the systems of preventive supervision. In a number of countries, it was found that the independence of the Courts of Audit was assured by the situation of their members and their irremovability in law or in fact.

Thus, in *Germany*, the Court of Audit, a high authority of the Reich, which is independent both of the Government and of Parliament and, in accordance with Article 118 of the Reich Regulations, is "subject to the law alone". Its members, presidents and advisers, who are appointed by the President of the Republic with the approval of the Reichsrat, are irremovable; they cannot be deprived, permanently or temporarily, of their office against their will, except by a judicial decision, and only for the reasons and in the forms determined by law.

In *Belgium*, the Court of Audit, which is responsible both for supervision during the execution of the budget and for final audit, is an organ of the Legislature. The advisers, who are appointed by the Chamber of Representatives, can be dismissed by it at any time, but they are completely independent of the Executive.

In *France*, the Court of Audit is solely responsible for final audit. The members of this Court are appointed by decree of the President of the Republic, on the proposal of the Minister of Finance. They are irremovable and cannot be suspended from or deprived of office except for failure to carry out their duties.

In *Italy*, the Court of Audit, which is responsible for the greater part of the preliminary supervision and for final audit, is the highest organ for the audit of accounts. Its presidents and advisers, who are appointed by Royal Decree on the proposal of the Minister of Finance and after a decision by the Cabinet, are in practice irremovable: they cannot be dismissed, pensioned off or placed on the unattached list, except by Royal Decree issued in accordance with the decision of a commission consisting of presidents and vice-presidents of the Senate and Chamber and on the initiative of the President of the Court or of the Government.

In *Japan*, the Court of Audit is directly under the Emperor. It is completely independent of the Government and Legislature. The members of the Court are irremovable. They can be dismissed only by a criminal or disciplinary court. Members of the Court are forbidden to hold any other public office or to seek political office.

In *Norway*, the Court of Audit is a body appointed directly by Parliament; it is responsible both for the supervision of the budget and the auditing of the accounts. It consists of five advisers elected for three years by one of the sections of Parliament (*Odelsting*), who cannot, during this period, be dismissed from office.

In the *Netherlands*, the Court of Audit, which is responsible both for supervision over the execution of the budget and for auditing of the accounts after they have been made out, is a higher assembly, whose members are independent of the Executive and the Legislature. They can only be dismissed by judgment of the High Court and for the reasons determined by law. This also applies to the members of the Court of Audit of Batavia, who supervise the accounts of expenditure effected in the *Dutch Indies*.

In *Poland*, the members of the Court of Audit, whose activities cover preliminary supervision and final audit, are answerable only to the President of the Republic; they cannot be dismissed except by a resolution of the Diet adopted by a three-fifths majority.

The irremovability of the members of the Courts of Audit is also assured in *Portugal*, *Bulgaria*, *Greece*, *Roumania*, *Albania* and *Brazil*. In *Czechoslovakia*, however, the President of the Supreme Court of Audit is appointed by the head of the State, like other high officials; the members of the Court are subject to the same regulations as the other high officials and are not irremovable, but the Court of Audit is in fact completely independent of the ministerial departments. This is also the case in *Yugoslavia*. In *Austria*, the magistrates of the Supreme Court of Audit are directly under the National Council; they are independent of the Ministers.

Mention has already been made of the guarantees of independence enjoyed by the officials in Anglo-Saxon countries who are responsible for supervision over the execution of the budget and final audit.

In the *United Kingdom*, the Audit Office (the term "audit" is reserved for the examination of accounts subsequent to payment) is controlled by the holder of the combined offices of Comptroller-General of the Receipts and Issues of His Majesty's Exchequer and Auditor-General of Public Accounts, who is appointed by Royal letters patent. He may not at the same time hold any other office under the Crown. He holds office "during good behaviour", subject, however, to removal by the Crown on an address from the two Houses of Parliament. The Comptroller and Auditor-General thus possesses the degree of independence of the Government necessary to enable him to exercise strict supervision over its expenditure. Audit by the Comptroller and Auditor-General is carried out continuously throughout the year so that irregularity can be discovered at once, and he has the right of access to official departmental papers. His discretion in drafting his report is unfettered and he may draw attention, not only to irregular, but also to uneconomical expenditure.

The position of the Comptroller and Auditor-General in the *Irish Free State* is similar, as is also that of the two high officials responsible for the supervision of public accounts in *India*—one (the Auditor of the Home Accounts) in respect of expenditure effected in the United Kingdom on behalf of that country, and the other (the Auditor-General) in respect of expenditure effected in India. A similar organisation exists in *Australia*, *New Zealand* and *South Africa*. In the *United States of America*, the Comptroller-General is appointed for fifteen years by the President of the Republic, with the consent of the Senate. This term of office of fifteen years is not renewable. The

Comptroller may be dismissed only by a joint resolution of Congress, on the grounds of permanent incapacity, incompetence, negligence, malversation or the perpetration of a crime.

In certain Scandinavian countries (Denmark, Sweden), supervision *a posteriori* is also exercised by organs (high officials or offices) whose chief characteristic is the possession of independent supervisory powers:

In *Denmark*, State auditors are appointed by Parliament to audit the accounts drawn up by the general auditors of the various ministerial departments. The State auditors also form, with the general auditors and the chief accountant of the Ministry of Finance, the State Accounts Board, which is required to give its opinion on the manner in which the accounts are rendered.

In *Sweden*, the Central Accounting Office, whose members are completely independent of the Executive and the Legislature, is responsible for final audit. The members are appointed by Royal letters patent and cannot be dismissed without a judgment by a higher court (Svéa Court of Appeal).

In the *U.S.S.R.*, the People's Commissary for Workers' and Peasants' Inspection, who is a member of the Central Executive Committee and is appointed and removed by it, performs these duties on behalf of the Central Government. He is completely independent of the People's Commissariat, the Minister for Military and Naval Affairs and the People's Commissariat for Finance. The People's Commissary for Finance himself participates in final audit; at the end of the year, he submits a general report on the execution of the budget to the Council of People's Commissaries.

Lastly, in *Switzerland* there is no supreme administrative organ responsible for the auditing of accounts. The final accounts are examined and checked by Parliament itself.

These accounts are subdivided into administration accounts, drawn up with reference to national defence expenditure by the Central Commissariat for War under the supervision of the Department of Finance, and the capital account (final account and balance-sheet) drawn up by the Department of Finance.

2. Parliament, moreover, has in almost every case a share in the audit of the final accounts; but this participation occurs in a second phase which does not so much involve the re-auditing of the accounts as the ascertainment, by examination of the audit carried out by the higher supervisory bodies, whether the Ministers have complied with the provisions of the budgetary law, and the forming of an appreciation of their financial administration during the year.

(b) *Working of final audit.* Generally speaking, the principal duty of the bodies responsible for final audit (Court of Audit, Comptrollers-General, Central Accounting Offices, State Auditors) is to check the accounts relating to the application of the budget, as prepared by the Ministers at the end of the financial «*exercice*», and in many countries also at the end of each month of the «*exercice*». This is the case, with various differences in detail, in all the countries examined by the Committee.

1. The methods employed for carrying out a final audit vary considerably. They involve generally a right of investigation into the entire working of the departments and a thorough examination of the departmental accounts, which are checked successively by several sections or internal subdivisions of the higher supervisory bodies. Evidence of authority to enquire into the whole field of administration is found in the right to make enquiry on the spot (local inspections by the Court of Audit in Germany, High Court of Supervision in Czechoslovakia), to call for all accounting documents, to examine all books and papers of the various departments (Comptroller-General of the United States of America, Auditor-General in the United Kingdom, India and the Irish Free State), to request the Ministers or any Accounting Officer to furnish explanations (France, Norway, U.S.S.R.), and to demand the production, for purposes of verification, of any official documents bearing upon the financial activities of the various administrative departments.

As a rule, the Courts of Audit and higher auditing offices audit the *special* accounts as well as the other State public accounts. This is the case even when the special accounts are not incorporated in the budget accounts.

2. The final result of the auditing carried out by bodies exercising a final audit varies in different countries; it may be the official passing of the accounts as in order (United Kingdom, India, South Africa, Australia, New Zealand, Irish Free State, Italy, Netherlands, Poland, United States of America) or the giving to Parliament of a solemn guarantee that the accounts dealing with the execution of the past budget have

been properly prepared (Belgium, Czechoslovakia, Denmark, France, Germany, Japan, Norway, Roumania, Yugoslavia). In order to check the accuracy of the Ministers' accounts, the Court of Audit compares the accounts of the officials ordering payment with those of the public accountants which it examines. In Italy and in the Netherlands, the Court of Audit checks the closed accounts of Ministers by means of their own entries, including any observations which it may have made in the course of the exercise of its preventive supervision.

3. *Final accounts*, drawn up when the execution of the budget is completed and showing the use made by the Governments of the credits granted, are *published* in almost all countries.

In Japan, the final accounts of the execution of the budget are submitted to Parliament; they are not published, but the special committee's report regarding the examination of the final accounts by Parliament is reproduced in the *Official Journal*. In Belgium, France, Greece and Roumania, where there is delay in the rendering of the accounts, a provisional summary of the results is published in the account of the Treasury situation or other official documents.

In many countries the accounts are rendered in exactly the same form as the published budget. This is the case in Bulgaria, Czechoslovakia, Denmark, Finland, France, Italy, Japan, Norway, the Netherlands, Sweden, Yugoslavia and the U.S.S.R. In Germany, the accounts are rendered in the same form as the budget as voted, but not as the published budget, the latter being presented in a more summary form than the former. In India, the accounts contain more details than the budget. In Yugoslavia, on the other hand, they are less detailed. Similarly, in the United Kingdom and the Irish Free State, the accounts are less detailed than the estimates. Lastly, in Canada and the United States of America, the accounts are not drawn up in a form identical with that of the budget, but contain as many details.

The publication of adequately detailed accounts constitutes one of the best guarantees of the integrity of financial management.

In the case, however, of three of the countries examined by the Committee—Belgium, France and Roumania—there are at present long delays in the clearing and consequently in the publication of the final accounts. In Belgium, for example, the last closed account, published in 1932, refers to the year 1919. In France, the last final account published is that for 1924. In Roumania, the last account goes back as far as 1913-14.

In view of the importance of the rendering of accounts for the operation of a Convention on publicity and limitation of expenditure, 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. It is not within the Committee's competence to indicate what internal measures certain States will have to take to fulfil the preliminary conditions necessary for the conclusion of the Convention, but, in view of the time that might be required for regularising the periods within which accounts must be rendered or their method of presentation, the Committee feels justified in proposing that the attention of the Governments concerned should be drawn to the necessity for making all arrangements for that purpose immediately.¹

¹ **NOTE.** — Major-General BARBERIS and M. WORBS feel bound to draw the attention of the Expenditure Commission to the following considerations.

The fact that at present the closed accounts of a number of Powers are not published until after considerable delay is a matter for serious misgiving, because:

(1) The technical difficulties in the way of the rapid clearance of accounts in arrears are very great; the very detailed laws that exist on the subject have been found impracticable, and *ad impossibilia nemo tenetur*;

(2) Until the new series of closed accounts is published, it cannot be determined whether these accounts are satisfactory from the point of view of the establishment of the Model Statement.

In any case, there will be inequality of treatment as between the Powers whose previous series of closed accounts are perfectly in order and those whose first closed accounts are not presented until two or three years after the Convention is signed.

4. The observations of the bodies entrusted with the audit of accounts are generally included in reports submitted to the Ministry of Finance, who in turn forwards them to Parliament. The character, contents and length of this report vary considerably from country to country.

In *Germany*, the report drawn up by the Court of Audit on the conclusion of its investigation summarises the main results of its enquiries, mentions any illegalities or irregularities brought to light in the course of audit, and furnishes its observations and suggestions. It forwards this document to the Minister of Finance, who presents it to the Reichsrat and the Reichstag, together with a request that the Government of the Reich may be granted its discharge.

Similarly, in *France*, the Court of Audit, when furnishing its annual report on the general result of its activities, submits suggestions for reforms or improvements (Article 446 of the Decree of May 31st, 1862, on Public Accounting). The same is the case in Belgium, Czechoslovakia, Italy, Japan, Netherlands, Norway, Poland, Roumania and Yugoslavia.

In the *United Kingdom*, the Comptroller and Auditor-General prepares at the end of the year a report which is forwarded to the Committee of Public Accounts. This report is fuller and more comprehensive than the majority of the reports drawn up by Courts of Audit; it draws the attention of Parliament to any irregularities observed and suggests measures for their repression or their avoidance in the future. The Comptroller and Auditor-General has, moreover, the right to be present at the meetings of the Committee of Public Accounts and to defend there the conclusions contained in his report.

The same ideas have been put into practice in the *Irish Free State* and in *India*. In the *United States of America*, the Comptroller-General in several reports, submitted either to the President or to Congress, draws attention to any payments made or contracts entered into contrary to the provisions of the law.

In the *U.S.S.R.*, the People's Commissary for Finance submits a general report on the execution of the budget to the Council of People's Commissaries, and the People's Commissariat for Workers' and Peasants' Inspection gives a reasoned opinion regarding the accounts dealing with the execution of the national defence budget.

5. It is worthy of note that these reports, and the observations submitted by the Court of Audit or by the high officials entrusted with final audit are in nearly every case published.

Such publicity takes place particularly in Belgium, France, Germany, Italy, Norway, the Netherlands, Poland, Roumania and Yugoslavia. It is, however, in the Anglo-Saxon countries where it is carried to the furthest extent; in those countries, the essential documents connected with the budget and with the accounts are placed on public sale at low prices. In such cases, publicity of audit does in actual fact amount to the enlisting of public opinion on the side of sound public accounts.

It may also be pointed out that Sweden publishes the observations submitted by the special auditing officers appointed by the Riksdag for the auditing of the accounts of the past financial year. In the *U.S.S.R.*, ordinances are issued every year by the Central Executive Committee giving information regarding ascertained defects in the execution of the budget. The opinion of the People's Commissary for Workers' and Peasants' Inspection on the accounts relating to the execution of the national defence budget is, however, not published.

6. Efficiency of supervision is further increased by the provision found in some countries whereby the auditing body is invested with actual *jurisdictional powers* in regard to administrative and accounting officials.

Such jurisdictional powers are exercised by the Courts of Audit in Belgium, Bulgaria, Italy, the Netherlands, Poland, Roumania, and by the Central Accounting Department in Sweden.

In Italy and in Poland, the Court of Audit possesses these powers over all persons concerned in the carrying out of the budget; the responsibility of these officials remains until a declaration is made by the Court of Audit that the accounts are in order.

Similarly, in Sweden, the Central Accounting Department possesses jurisdictional powers over the officials in the auditing departments and over all administrative and accounting officers.

In Denmark, each Minister, upon receipt of the observations of the Chief Revising Officer, may bring home to administrative and accounting officials their responsibility.

In Belgium the judicial authority of the Court of Audit extends only to Accounting Officers; it may put such officials on their trial and may issue orders making them financially responsible. The same is the case in the Netherlands and in Roumania.

In France, it is the accounts which are submitted to examination by the Court of Audit, and not the Accounting Officers. The Court cannot, however, take action upon its own decisions. The Minister of Finance, and not the Court, can alone bring the officials of the Treasury before the law courts. Similarly, in Norway, the Court of Audit either gives a discharge to the Accounting Officers, or sends them before the courts. The same system exists in Yugoslavia.

In Germany, the Court of Audit has, strictly speaking, no right of jurisdiction in regard to Accounting Officers or over accounts; it cannot issue decrees with executive force nor even give to the Accounting Officers a final discharge or declare their accounts as short or in excess, as is the case with other Courts of Audit; it may, however, impose upon those responsible for the carrying out of the budget, penalties which must be enforced by the departmental authorities; it may, for instance, hold such persons financially liable for sums necessary to cover deficits arising out of illegal or irregular action.

7. The conclusion to be drawn from the Committee's examination is that the final accounts are submitted to audit and certification by judicial, or at least by independent, bodies, and that the method of their appointment and the security of tenure which they enjoy are guarantees of their integrity. The constant activity of these high officials in the verification of the accounts and the very real supervision they exercise in every case ensure the honesty of the financial administration.

8. An ultimate phase of final audit and one found in nearly every country is the exercise by *Parliament*, on the basis of the final and audited accounts, of control over the financial administration of Ministers. This action does not, generally speaking, amount to an audit of the accounts; it is rather an estimate of the general results obtained and of the efficiency of Governmental management, with a view to deciding whether Ministers have complied with the provisions of the Finance Act and, if necessary, to making them responsible, either politically or before the civil or even criminal courts, in the event of any violation of these provisions. The Ministers are bound to submit accounts to Parliament, and Parliament exercises one of its most important duties in comparing the results with the provisions of the budget.

Unfortunately, in those countries which provide this additional and extremely efficient guarantee, the Parliaments in some cases only undertake this examination after considerable delay, which may amount in some cases to several years. If the supervision exercised by Parliament over the financial action of Ministers is to be really effective, it is essential that there should not be too long an interval between the closing of the financial year and the approval of the accounts of the ministries by Parliament. If delays of any length occur before this law comes under discussion, the result will be that, when the vote is passed, the Ministers will in most cases no longer be in power, and the Parliament criticising the use made of credits will not be the Parliament which granted those credits. For this reason, while the adoption of a Convention for limitation or publicity of expenditure might be expected to lead to reforms in the internal supervisory system of financial administration, the Committee is of opinion that certain Governments would do well to see whether it would not be possible to put an end to the delays which hinder the voting of the law by which the accounts are finally passed.

In the Anglo-Saxon countries, on the other hand, parliamentary control is carried out with admirable speed, and the periods laid down for the clearing of accounts are scrupulously observed.

9. The work of Parliamentary supervision is generally prepared for by *commissions* who undertake a preliminary examination of the accounts in the light of the observations of the higher supervisory bodies, in order to place Parliament, which alone has authority to pass a definite verdict on the management of the departments, in a position to form an opinion as to whether the accounts are correct in form and accurate in context. The powers of these commissions vary considerably. In some cases they play an important part in the supervision exercised by Parliament, thus doing more than merely preparing the way for the latter; this is, in particular, the case in Switzerland and Germany.

It may even happen that Parliament entrusts to some of its members, or to a commission, the duty of supervising, on its behalf, the Government accounts, and of taking the place of Parliament to some extent by furnishing a definite opinion regarding the execution of the budget, this opinion being embodied in a report which Parliament merely approves. This method of Parliamentary supervision is certainly in no way inferior to that mentioned above, since it leaves to a small number of qualified national representatives the duty of examining, on behalf of Parliament, the ministerial accounts.

Such duties are, in the United Kingdom, the Irish Free State and India, entrusted to the Committee of Public Accounts. This body is the most important safeguard in the system of British financial control; it exercises in the name of the House of Commons powers of supreme

supervision over the entire public accounts. It is composed of fifteen members appointed by the Speaker of the House, and the Chairman is always a member of the Opposition; the Committee, moreover, contains a strong representation of the minority. It is entrusted with very extensive powers for which no parallel exists in other systems; thus it has an unlimited power of investigation; it can "send for persons and papers" necessary to the carrying out of its investigations.

The Public Accounts Committee may, if it wishes, refuse to absolve an Accounting Officer in respect of his actions. In that event, the Committee would notify the fact in the report which it presents to Parliament and it would be for the latter, if it approved, to take the necessary action, which would be directed to the ministerial head of the department concerned.

This system of a Parliamentary commission, in favour of which Parliament renounces a portion of its supervisory powers, is found in a much weaker form in Sweden, where the Riksdag appoints every year twelve members to examine the accounts of the previous budgetary year, this examination taking place between September 16th and December 15th. The observations arising out of this examination are, however, considered by the Riksdag in the following session, after the authorities concerned have been called upon to reply.

In the U.S.S.R., the Budgetary Commission of the Central Executive Committee examines the annual reports relating to the execution of the State budget. It appoints from among its members sub-commissions for detailed examination of these reports, it can request the representatives of the People's Commissary for Finance, and the representatives of the Federated Republics and of the various organisations, to supply it with any explanations desired regarding these reports.

10. In certain countries (Australia, Austria, Czechoslovakia, Germany, New Zealand, Norway, Poland, South Africa, Sweden), the Parliament, on receipt of the observations and reports of the auditing bodies, simply gives to the Government and the higher administrative authorities a *discharge* in respect of their management.

In other countries (Belgium, Bulgaria, Denmark, France, Italy, Netherlands, Roumania, Switzerland), Parliament brings about the *final settlement of the budget by a law "for the settlement of the accounts"*, this law being generally published. The publicity given to the laws providing for settlement constitutes a very important guarantee for the supervision of the Convention, because it enables due attention to be paid to all Parliamentary criticism of the execution of the budget. But the value of that guarantee is greatly reduced in the countries—mentioned above—where there is a long delay in the clearing of accounts.

The decrees by which the Central Executive Committee of the U.S.S.R. annually issues a declaration of approval of the final accounts can be regarded as equivalent to a law of the kind mentioned above. These decrees, moreover, are not confined to the granting of this approval; they contain information regarding the execution of the budget and any defects or irregularities which have been observed; they also contain the instructions given to the Governments of the U.S.S.R. and of the Federated Republics regarding any improvements which have been considered necessary in budgetary matters.

In the United States of America, Congress does not check the accounts and it is not the duty of Congress to approve them. But it has, on the basis of the Comptroller-General's report, full authority to set up special commissions for the prosecution of enquiries regarding the management of public funds.

CONCLUSIONS.

Publicity in the matter of authorisations of expenditure and budgetary documents is the only means of determining with sufficient accuracy the real purpose of the expenditure. The application of the standing orders of the public accounting authorities and the supervisory measures taken in the various countries regarding the execution of the budget constitute a guarantee of the correctness of the accounts.

As regards publicity for authorisations of expenditure, it will be clear that the value of the guarantee it provides varies in accordance with parliamentary traditions, customs and practice and with the actual efficiency of the supervision perpetually exercised by the national representative body over the granting of credits. In this regard, *de facto* situations exist, though sometimes only temporarily, with which budgetary technique is not competent to deal and which must be duly allowed for when the Convention is signed. But the execution of a limitation Convention based on the payments made in the course of a financial «*exercice*» depends essentially on the accuracy of the figures relating to

payment. That accuracy is based primarily upon the rules governing the organisation of public accounting. The observance of these rules is dependent on traditions which continue irrespective of changes in the actual forms of Government, because they meet the deep-seated and permanent needs of a public finance administration. Administrative traditions and the general rules of public law are nearly always unaffected by political changes. The reason for this is that sound financial administration constitutes for all States, as for all business undertakings, the essential factor of prosperity and the supreme guarantee of credit.

The Committee found that nearly all national defence expenditure within the meaning of the Convention appears in the accounts of the various States. These accounts show payments made under authorisations of expenditure granted by the public authorities. The authenticity of the figures for payments entered in the accounts is based on the application of the rules governing the preparation and execution of the budget, the supervision of such execution and the preparation of the final accounts. Among these rules, the Committee attaches particular importance to the working of the higher auditing authorities and the fact that their members are independent of the Executive. The Committee found that the extent to which such authorities are independent is not the same in all States. But while it does not propose to give an opinion as to whether any one system of accounting gives better results than another, the Committee has found that, in all the countries covered by its enquiry, there are laws and regulations governing the administration of finance and public accountancy, the observation of which guarantees the authenticity of the figures entered in the closed accounts.^{1 2}

The proper application of the provisions of the Convention naturally requires that the laws and regulations, the existence of which the Committee has noted, are in practice properly applied.

The closed accounts are a necessary part of all machinery ensuring the publicity or limitation of expenditure. For that reason, the Committee considers that the publication of the closed accounts within sufficiently short periods for the purposes of the Convention constitutes an indispensable condition for the conclusion of the Convention.

NOTE. — (1) As in one of the countries whose documentary information was examined there is no higher auditing organisation independent of the Executive, M. ANDO, attaching particular importance to the independence of the higher supervisory bodies of the various countries, accepts the conclusions reached, subject to the proviso that, in the future, the independence of the higher supervisory organisations is adequately ensured.

(2) M. HÄGGLÖF (Substitute for M. SANDLER) is of opinion that confidence must be placed in the closed accounts audited by the proper auditing authorities and officially published by the various States. He does not think that the correctness of those figures officially prepared and submitted should be called in question.

The Committee, however, made it an essential condition that all States should be able to submit within sufficiently short periods proper closed accounts audited by the competent auditing authorities.

Once this principle is established, the Swedish expert considers that it is not necessary either for the Conference or for the Permanent Commission to carry out investigations—necessarily very difficult—regarding the advantages or disadvantages of the various financial or administrative systems in force in the different countries of the world.

ADDENDUM TO PART II.

THE BUDGETS AND ACCOUNTS OF REGIONAL AND LOCAL COLLECTIVE ENTITIES.

A. GENERAL OBSERVATIONS.

It is a well-known fact that the national defence expenditure borne on the budgets of regional or local collective entities (provinces, departments, districts, communes, local budgets of the colonies) represents only a small proportion of the total national defence expenditure. From the point of view of principle, it is, however, important to ascertain the rules governing the execution of the budgets and the audit of the accounts in which this expenditure is shown. The Committee did not feel called upon to pursue such thorough investigations into the budgetary systems of regional and local collective entities as into State budgets and accounts and, moreover, this would have been impossible. Nevertheless, it collected on this matter certain data which have served as a basis for the general considerations set forth below and for the description of certain special cases which are given as examples. As in the previous chapter with regard to State accounts, special efforts will be made to bring out the guarantees afforded by the rules for the audit of the accounts of regional and local collective entities, with a view to ascertaining the degree of authenticity of the payment figures, which will have to serve as legal proof of the execution of the Convention. The fact will be mentioned that, in certain countries, the highest organs for the verification of State accounts are also competent to audit the accounts relating to the execution of regional or local budgets. In such cases, the authenticity of the payment figures can be established with the same degree of accuracy as the authenticity of the figures in the final accounts of the State. It is true that the rendering of local accounts is not always accompanied by the same guarantees of publicity as the audit of the general accounts of the State and that the final audit of the departmental accounts by Parliament is in this case usually replaced by audit by the regional or municipal assemblies, whose investigations do not receive the same amount of attention from public opinion as Parliamentary audit. As indicated above, however, more importance should be attached to the guarantees of efficacy afforded by the actual audit than to the publicity by which it may be accompanied.

The execution of regional and local budgets is usually subject to more or less strict supervision by the Ministry of the Interior or its representatives attached to the administrative groups; in countries applying the principle of the separation of the functions of administrators and accountants, the latter may exercise, under the same conditions as the principal officials with authority to make payments—that is to say, on their pecuniary responsibility—supervision over the payment orders issued by the administrators of regional and local collective entities.

It is obviously impossible in this report to give a detailed description of the manner in which the audit of regional and local accounts is organised in the different countries, owing to the great diversity of their institutions. All that can be done is to give a few examples taken from the documentary material submitted by States or collected from members of the Committee.

B. REGIONAL OR LOCAL COLLECTIVE ENTITIES OF THE HOME COUNTRY.

In *Germany*, the estimates of expenditure of the various federated States (*Länder*) are usually approved by the Parliaments of those States, and in the case of the other administrative groups by the bodies representing regions and localities, constituted according to their respective laws. As a general rule, the financial year in the *Länder* and communes is the same as for the Reich. The budgets of the provinces are published as are most of the budgets of the other regional groups. Supervision over the execution of the budgets of the *Länder* and regional and local groups is established by various laws and regulations. The closed accounts of the *Länder* are as detailed as those of the sovereign State and are reproduced in an official publication.

In *France*, the budget of each department is voted by the "Conseil général". Supervision over the execution of the departmental budgets is exercised, as in the case of the State budget, by the Treasurer Paymasters-General, who are pecuniarily responsible for the regularity of the payment orders issued by the Prefects, from the point of view of the actuality of the service

and the existence of vouchers. The operations of the Paymasters are checked by the Inspectorate of Finance and subsequently supervised by the Directorate of Public Accounts. The final audit is carried out by the Departmental Commission, the "Conseil général" and the Court of Audit.

The budget of each commune is voted by the Municipal Council.

Preventive supervision over the execution of the *communal budgets* is exercised, as in the case of the departmental budgets, by the Paymasters, as regards payment orders issued by the Mayor of the commune, who is required to keep within the limits of the credits voted by the Municipal Council and to use them for the purpose for which they were voted. The Mayor and the Paymaster (the municipal collector) keep parallel accounts, which are audited by the Municipal Council and must agree. The administrative account of the Mayor drawn up at the close of the "exercice" and accompanied by detailed explanations is discussed and voted by the Municipal Council, the Mayor not being present; it is approved by the Prefect or Sub-Prefect as the case may be.

The cash account drawn up by the municipal collector is audited by an inter-departmental Prefectural Council or by the Court of Audit, according to whether the resources of the commune are under or over 250,000 francs.

In *Italy*, the budgets of the *communes* and *provinces*, before they can be executed, must be approved by the *Prefetto*, representing the central Government. The final audit is carried out by the Prefectural Council, which examines the accounts rendered by the Treasurers of the communes and provinces. In the case of complaints, the decision rests with the Court of Audit. Brief particulars of the finances of the communes and provinces are published by the Ministry of Finance.

In *Japan*, the budgets of the *departments* are voted by the General Councils and those of the *municipalities* by the Municipal Councils. The credits are voted at public meetings and a summary of the adopted budget is published. In the municipalities the power to audit the accounts rests with the Mayors, who exercise this function under the supervision of the Municipal Councillors. In the departments, the Prefects delegate these powers to their subordinates. The highest supervisory authorities of the State do not participate in the audit of the accounts unless the State grants a subsidy to those administrative groups. The closed accounts of the departments and communes are submitted to the Minister of the Interior and to the Prefect respectively, who publish summaries.

In *Poland*, the budgets of the communes, which are voted at public meetings by the elected representatives, are submitted, for purposes of audit, to the Minister of the Interior, who ascertains whether the expenditure and receipts are legal and for what purpose they are intended. The draft budget and accounts are published by being posted on public notice boards. The Minister of the Interior and the Minister of Finance, after agreement with the Minister of the Interior, are entitled to have the financial administration of the communes checked by their own delegates. Where necessary, the State may order this to be done by the Court of Audit.

In *Switzerland*, where certain military expenditure is shown in the cantonal budgets, the cantonal Parliaments, or *Landsgemeinden*, participate in the voting or determining of credits. The discussions of the cantonal parliaments are public and the budgets are published. Supervision during the execution of the cantonal budgets is more or less the same as in the case of the budget of the Confederation. The final audit of the cantonal accounts is usually effected by the cantonal Parliaments. The closed accounts are certified correct by those Parliaments and published.

C. BUDGETS AND GENERAL AND LOCAL ACCOUNTS OF THE COLONIES.

As regards the colonies, the procedure followed for the preparation, execution and audit of the regional or local budgets is usually the same, *mutatis mutandis*, as in the home country.

In *Belgium*, the general account of the Belgian Congo and of Ruanda-Urundi is verified by the Court of Audit. It is then transmitted to Parliament with the Court's observations. The general account is finally approved by Parliament. The procedure followed for the closing and rendering of the accounts of the African colonies is usually similar to that employed for the accounts of the ministerial departments.

In *French colonies*, the audit of the final accounts is based on a comparison of the accounts drawn up by the principal officials invested with authority to make payments (Governors-General) with the accounts of the accountants (Treasurer Paymasters-General).

In the case of colonies with a "Conseil général" (Martinique, Guadeloupe, Reunion, French Guiana, French India, New Caledonia), the principal official possessing authority to make payments submits his administrative account to the "Conseil général", which approves it. A committee of three members of the Governor's Privy Council attests the fact that the books of the principal official with authority to make payments and the books of the Treasurer Paymaster-General are in conformity. The accounts are drawn up finally by the Governor-General in Privy Council. The accounts of the colonies, whose budgets are approved by decree, are also sanctioned by decree. Similarly, in the case of Algiers, the administrative account of the Governor-General is regulated by decree.

Both the final accounts of the colonies administered by Governors-General, and also the accounts of the colonies whose loans are guaranteed by the State, are submitted to Parliament for approval.

The Treasurer Paymaster-General, who is accountable to the Audit Office for his accounts of the colonial section of the budget of the home country, also renders a special account for his colony's local services.

In *Italy*, the closed accounts of the colonies are audited by the Court of Audit under the same conditions as the other ministerial accounts. They are approved by royal decrees.

In *Japan*, the procedure followed for supervising the execution of the budget and auditing the accounts of the colonies is exactly the same as that applicable to the budgets and accounts of the ministerial departments.

In the case of the *Dutch Indies*, the budget is prepared, discussed and voted, executed and audited under similar conditions to those applicable to the budget of the home country.¹

The national defence expenditure borne by the Governments of the colonies of the *United Kingdom* for the maintenance of the local forces is shown in the budgetary estimates for the territory in which those forces are stationed. These estimates are adopted by the local legislative assembly (if there is one) in the form of an appropriation law which is allowed by the sovereign. The other estimates are sanctioned by the Governor on his own responsibility, provided, however, that they do not exceed a certain limit, do not infringe the laws and regulations and do not raise grave questions of principle. The annual estimates are normally published. The execution of the colonial budgets is supervised by the Treasurer of the colony, the Governor and, in some cases, by the Legislative Council of the colony. The annual accounts of receipts and expenditure are certified correct by the Director of Colonial Audit. In most colonies, a summary of the annual accounts is published at the same time as the Treasurer's annual report.

D.

In conclusion, it would appear that, in those countries regarding which the Committee has been able to obtain information, supervision over the execution of the budgets of regional and local groups is subject to definite rules and that the States concerned will be in a position to extract from the accounts of those groups the national defence expenditure figures which may appear therein.

¹ See Volume II, Summary of Information (Netherlands).

Part III.

IS IT POSSIBLE TO ESTABLISH AND CONTROL THE TOTAL NATIONAL DEFENCE EXPENDITURE OF EACH STATE ?

INTRODUCTION.

Having laid down the legal foundations of the Convention for the publicity and limitation of expenditure as based on payments actually effected, and having estimated the degree of authenticity attaching to the figures of payments shown in the closed accounts, the Committee proceeded to enquire as to whether it was possible for the States to identify in their accounts all payments effected for the objects referred to in the definitions of national defence expenditure and specified in the list drawn up by the Committee for purposes of the Convention, and to show accurately the total amount.

Study of the documentary material supplied by the different States has made it possible to particularise the procedure required in each case in order to arrive at the total national defence expenditure.

It has already been shown why almost the whole of national defence expenditure is borne by the central authority; but, in order that there may be no gap in the Convention, it is necessary to apply the principle of publicity and limitation also to such national defence expenditure as is borne by public bodies regional or local, associations and private persons. The Committee was accordingly compelled, in the course of its enquiry, to endeavour to determine the respective proportions of these categories of expenditure in relation to the total national defence expenditure.

Having thus defined by whom and in what proportion national defence expenditure is effected, the Committee proceeded to consider how such expenditure might be listed in each case. It was thus enabled to indicate and to solve the difficulties involved in the establishment by each State of a complete account of its national defence expenditure.

In this enquiry the Committee was led to give an interpretation to certain special features of the different methods of public accounting. In each case it was able to lay down rules the observance of which, in conjunction with that of the "Instructions" which the Committee will draw up later, should enable each State to reconstitute a complete account of its national defence expenditure.

The Committee then proceeded to determine to what extent it would be possible for an international organisation to verify the accuracy of the total national defence expenditure of each State.

It will thus be clear what is the plan followed by the Committee in the double task it assumed of listing all national defence expenditure appearing in the different accounts,

and making suitable provision to ensure the inclusion of all such expenditure in the Model Statement.

The present part of the report will therefore be on the following lines:

Chapter VII. — A. By whom is national defence expenditure effected, and how is such expenditure to be found in the accounts ?

B. Study of problems arising in connection with certain special features of the accounts.

- (a) Special funds;
- (b) Autonomous establishments;
- (c) Subsidies, loans and participations;
- (d) Expenditure effected by loans;
- (e) Gross and net accounts;
- (f) Special case of deductions from pay;
- (g) Donations and legacies.

Chapter VIII. — With what degree of accuracy is it possible, by means of published accounts, to verify the national defence expenditure of each State ?

Chapter VII.

IS IT POSSIBLE FOR EVERY STATE TO DRAW UP A COMPLETE ACCOUNT OF ITS NATIONAL DEFENCE EXPENDITURE ?

A. BY WHOM IS NATIONAL DEFENCE EXPENDITURE EFFECTED, AND HOW IS SUCH EXPENDITURE TO BE FOUND IN THE ACCOUNTS ?

In order to determine by whom national defence expenditure is effected and what is the relative importance of the different sources of expenditure, the Committee drew up tables (based on the documentary material submitted) which are reproduced in an annex¹ and are the basis of the diagram on page 58.

I. THE CENTRAL AUTHORITY.

It appears from the particulars contained in these tables that the proportion of national defence expenditure borne by the *central authority* in relation to the grand total of the Model Statement is from 91 to 100 per cent in the various States, as evidenced by the documentary material submitted and completely examined, except in the Netherlands, where the expenditure of the central authority is only 38 per cent of the total, the military expenditure of the Dutch Indies accounting for 62 per cent.

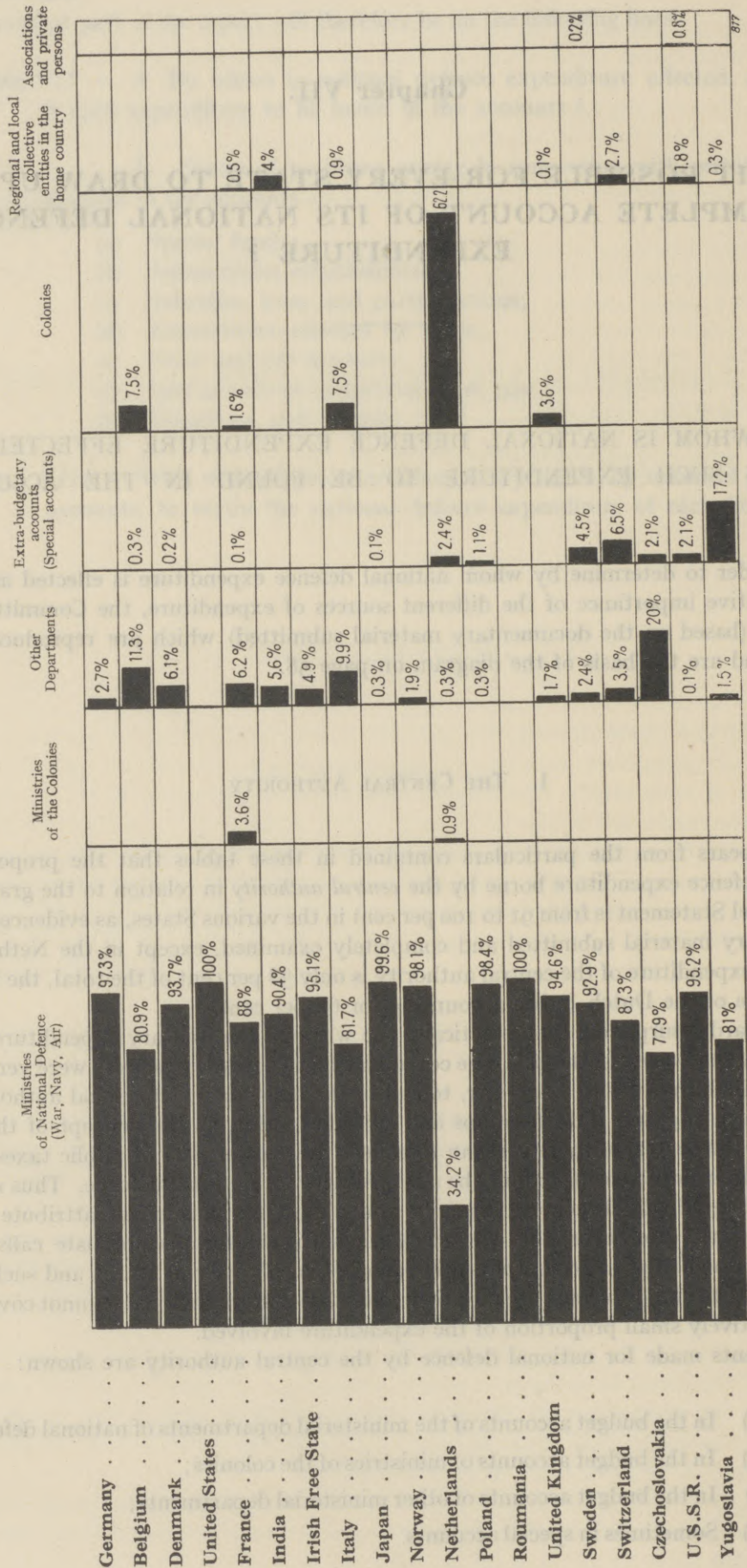
It is hardly surprising that practically the whole of the military expenditure should be borne by the State. In the past, the central authority, whose resources were very small, was compelled, in order to wage war, to call in the assistance of the local authorities or groups, which supplied it with troops and subsidies. But, as the concept of the State developed, the central authority began to collect the greater part of public taxes and to assume to an ever-increasing extent the responsibility for national defence. Thus national defence has gradually become essentially and almost exclusively an attribute of the sovereign State. Moreover, the defence of a country at the present date calls for an organisation on so vast a scale, the employment of such powerful means and such costly material that the funds of local organisations, associations or individuals cannot cover more than a relatively small proportion of the expenditure involved.

Payments made for national defence by the central authority are shown:

- (a) In the budget accounts of the ministerial departments of national defence;
- (b) In the budget accounts of ministries of the colonies;
- (c) In the budget accounts of other ministerial departments;
- (d) Sometimes in special accounts.

¹ Annex 5.

DIAGRAM SHOWING BY WHOM NATIONAL DEFENCE EXPENDITURE IS EFFECTED.



Note. — This diagram is based on the Model Statements submitted to the Committee by the different Governments. The figures given in the Model Statements cannot always be regarded as final (see especially the various observations in the "Summary of Information supplied to the Technical Committee", Volume II of this report).

Two considerations arise in connection with the investigation of national defence expenditure in these different accounts:

(1) Limitation and publicity should apply to all payments effected in the course of any given financial year. It is necessary, therefore, to determine whether the structure of the annual accounts of the States (the central authority) makes it possible to find all payments effected in each financial year, whether payments against credits provided for the year or payments representing liabilities of the State originating in previous years. The reply to this first question made it necessary for the Committee to undertake a general study of the structure of the various accounts.

(2) In the mass of payments effected during the financial year, it is necessary to know whether it is possible to identify the payments for the objects enumerated in the conventional list of national defence expenditure drawn up by the Committee.¹ It is also necessary to appreciate whether this identification of national defence expenditure will be sufficiently accurate to enable the figures to be transferred to the Model Statement without any uncertainty affecting the grand total of the statement.

These are the two problems which are now to be considered.

1. Structure of State Accounts (Central Authority). A certain number of States enter indiscriminately in their accounts all payments made during a given financial "exercice" irrespective of the date of origin of the corresponding expenditure authorisations. This is the case in Australia, Austria, the United Kingdom, Czechoslovakia, Denmark, Germany, India, the Irish Free State, Japan, New Zealand, Norway, Poland, Switzerland and the U.S.S.R. In these countries, the duration of the financial "exercice" is in some cases twelve months only (Australia, Austria, United Kingdom, Czechoslovakia, India, Irish Free State, New Zealand, Norway and the United States of America), while in other cases it consists of twelve months plus an additional period of varying length (Denmark, 1 month; Germany, 1½ months; Japan, 1 month; Poland, 3 months; Switzerland, 2 months). In all these cases there is no difficulty in ascertaining the amounts of all payments made during the financial "exercice".

In other countries, on the contrary, in order to bring out clearly the amounts of the payments made against the credits for each year, the accounts show separately the payments made out of the credits for the year just expired together with the arrear payments—*i.e.*, those relating to liabilities incurred during previous "exercices". This is the case in Belgium, Bulgaria, Finland, France, Italy, Netherlands, Roumania, United States of America and Yugoslavia.

The accounts of these countries make it possible readily to find the payments debited to the expenditure authorisations in each financial year; but it is not so easy to find the arrear payments. The manner in which payments in arrears are shown in the account in such countries varies considerably, and their interpretation sometimes gives rise to certain difficulties. We may mention the most characteristic of these.

In Albania and Italy, for example, the vote of a credit by Parliament limits the amount of the commitments which may be entered into by the public services during a given year. The difference between the amount of the credits and the year's commitments is cancelled at the end of the year. The difference, however, between commitments actually entered into and payments made during the financial "exercice" is transferred to a residuary (arrears) account which, after being credited with the amount of this difference, is successively debited with the various payments made out of such residuary credits. The accounts relating to such residuary credits as to those for the current year are on a yearly basis. The accounts for a given year thus show payments out of the budget proper (authorisation budget) and also payments chargeable to the arrears account. In order to

¹ Appendix to Chapter II. See page 16.

present a complete account of the payments of the "exercice", it is necessary to add the payments made out of the credits for the year and those made out of residuary credits—an easy matter, as the two are shown separately. The total of such payments is even shown in the annual general account. It will be seen that, in a case of this kind, which is perhaps one of those the interpretation of which presents the greatest difficulties, it is perfectly possible to obtain a complete statement of payments made during a given "exercice" for national defence purposes.

But there are also other peculiarities worth noting. Thus, in Belgium, payments made during a given year under payment orders issued during previous years and not cashed before the end of the additional period are accounted for in a special account. To obtain a complete statement of payments made during a given "exercice", the payments made out of this special arrears account must be added to the payments shown in the budgetary accounts proper. As, however, the former is shown separately at the end of the budgetary accounts, and contains a chapter for each ministry, it is possible to reconstitute the total amount of payments made by the National Defence Ministry during the financial "exercice".

In France, payments in arrear are accounted for in special chapters of the budgetary accounts opened *pour ordre*, with the result that the budgetary account itself shows the total payments made during the financial "exercice". A similar system, apart from variations in points of detail, is to be found in other countries, such as Finland and Yugoslavia. In these two countries, payments in arrear are shown in special Treasury accounts, which do not always specify details.

As a general rule, moreover, the budgetary accounts in which arrears are specially accounted for show the latter either *en bloc* or under comprehensive headings; and, if the details are not always ascertainable, it is possible to arrive at the total amount.

In countries where the accounts show payments in arrears separately, the period during which payments must be made in order to appear in the accounts of the year includes, except in the United States, additional periods of varying length (Belgium, 10 months; Bulgaria, 3 months; Finland, 2 months; France, 4 months; Italy, 1 month; Netherlands, 12 months; Roumania, 3 months; Switzerland, 2 months).

In the case of the special accounts, the whole object of which is to earmark particular items of expenditure until the work for which the accounts were established is completed, the Committee has found that, in general, payments effected in the course of the financial "exercice" are shown therein *en bloc*, without any distinction as to the years in which the obligations originated. Accordingly, there is no difficulty in ascertaining the annual payments belonging to such accounts.

It will be apparent from this analysis that the structure of the budgetary accounts of all the States whose documentary material has been examined is such as to allow of the amount of the expenditure effected by the central authority in each financial "exercice" to be ascertained.

**2. Separate
Indication of
National Defence
Expenditure in the
Accounts of the
Central Authority.**

From the mass of payments effected each year by all the public services coming under the central authority, there have to be extracted the payments for the objects indicated in the conventional list, and it should be determined with what degree of certainty each State is able to proceed with this reconstitution of the aggregate amount of its defence expenditure for the purpose of the Convention.

- (I) *Expenditure shown in the budgetary accounts of the National Defence Ministries (War, Navy and Air).* One essential point suggests itself at once. The National Defence Ministries have separate accounts in which their several expenditures are recorded. But almost all expenditure there shown is national defence expenditure within the meaning of the Convention—a fact which is intelligible enough, since the Committee understands national defence expenditure to mean all expenditure necessitated or caused through the upkeep of armed forces and

the immediate preparation for mobilisation, and it is precisely such upkeep and preparation with which National Defence Ministries are concerned.

It so happens, however, that expenditure which is not included in the conventional list drawn up by the Committee appears in the budgets of National Defence Ministries. Actual instances are due to tradition or administrative conventions. Sometimes the amounts involved are relatively considerable. In the United States of America, for example, the "non-military activities" which are shown in the accounts of the War Department total more than \$100 million. In the Netherlands, some of the expenditure connected with the Mercantile Marine is shown in the accounts of the Navy Department. In the United Kingdom and in Italy, the national defence budgets include service pensions expenditure. In France, the reserve pay of general officers, which is in reality a retiring pensions fund, appears in the budgets of the National Defence Ministries. In Norway, the National Defence Ministry defrays the cost of the service for the training of pilots. The Danish Marine Ministry includes a "Civil Section", whose expenditure is non-military. But in these cases the expenditure is generally shown under special headings and can be deducted without any special difficulty.

Again, national defence budgets also sometimes contain expenditure on mixed services which are both military and civil in character—*e.g.*, the geographical, hydrographic, cartographic, geodesic, topographical, meteorological and port and coastal services. The amount of such expenditure is relatively so small that it might have been left out of account; but the Committee agreed to States including in their total expenditure such part of this special expenditure as represents the military value of all the services in question. The inclusion of this proportion of the expenditure on mixed services cannot involve substantial mistakes.

A more serious difficulty arises where *military aviation* and *civil aviation* are administered by a single ministry. Such is the case in the United Kingdom, France and Italy, where there is only one Air Ministry, which, in view of the relative importance of military aviation, is regarded as a National Defence Ministry.

The existence of one common administration for civil and military aviation is not in itself an obstacle to distinguishing between the two. In the United Kingdom and in Italy, for example, in spite of the fact that there is a single ministry for both, the respective expenditure on military and civil aviation is shown under separate headings in the accounts with the exception of certain central departmental expenditure. On the other hand, in France, the accounts for the Air Ministry do not always make an absolutely clear distinction between the two classes of expenditure.

In France, the accounts of the Air Ministry show separately the purely military expenditure (67.8 per cent of the total account) and the purely civil expenditure (10.1 per cent), and there is accordingly no difficulty in distinguishing between them. But there is also mixed expenditure (22.1 per cent of the total of the account). In the case of the latter, the Air Ministry has made a very minute verification of its internal accounts and has indicated the basis on which it has separated the military from the mixed expenditure. During the examination of the returns, the French delegation gave detailed explanations of the system of apportionment adopted. The total of the mixed expenditure in question represents 3.49 per cent of the total of the Model Statement.

Although the States have in their possession all the information required to enable them to apportion correctly the mixed (military and civil) expenditure, points of uncertainty are liable to arise. The best means of eliminating any possibility of error in the apportionment would be for the States concerned to do everything in their power to distinguish in their accounts between expenditure on military aviation and expenditure on civil aviation.

As matters stand, in view of the fact that this mixed expenditure represents a very small percentage of the total of the account, the errors liable to arise in its apportionment cannot seriously affect the defence expenditure total. It is desirable, however, that the States concerned should make their apportionment of the mixed expenditure in the same way each year.

The main conclusion arising out of what has been said is that the expenditure in the accounts of National Defence Ministries which can be transferred *en bloc* to the Model Statement constitutes a very large proportion of the total national defence expenditure within the meaning of the Convention.

(2) *Expenditure effected by Colonial Ministries.* Certain States with colonies include a part of the expenditure on their defence in the budget accounts of their Colonial Ministries. This is the case with France (to the extent of 485 million francs) and the Netherlands (1.7 million florins). In these cases, the Committee has found that the colonial defence expenditure included in the accounts of the Colonial Ministries is shown separately in the accounts and can be transferred *en bloc* in the total of the Model Statement.

(3) *National defence expenditure in civil budgets.* In nearly all States, certain national defence expenditure is included in the accounts of civil ministries. In the case of the States the examination of whose returns has been completed by the Committee, the percentages of this expenditure in relation to the total of the Model Statement are as follows (see diagram on page 58):

Belgium	11.3	Netherlands	0.3
United Kingdom	1.7	Norway	1.9
Czechoslovakia	20.0 ¹	Poland	0.5
Denmark	6.1	Roumania	0
France	6.2	Sweden	2.4
Germany	2.7	Switzerland	3.5
India	5.6	United States of America	0
Irish Free State	4.9	U.S.S.R.	0.1
Italy	9.9	Yugoslavia	1.5
Japan	0.3		

The proportion is comparatively large in certain countries, such as France and Italy, for the reason that these countries have included technical formations, gendarmerie or carabinieri, which may be regarded as constituting formations organised on a military basis, all or part of whose expenditure is included in civil budgets.

The reasons why the civil departments bear a proportion of the national defence expenditure are very varied. The joint purchase or manufacture of goods intended to meet both the needs of the civil services and those of national defence is, for example, entrusted to certain civil departments as a relic of old customs retained by administrative tradition; or this practice is adopted on economic grounds or in order to avoid complicating administrative machinery.

Thus, expenditure on the purchase of horses for the army (France, Sweden), or on recruiting and the billeting of military personnel (Czechoslovakia, France, Germany, Italy, Sweden, U.S.S.R.), is included in the accounts of civil departments. Sometimes, again, the cost-of-living allowances to military personnel are also paid out of credits appearing in the Finance Ministry's accounts (Norway).

In Switzerland, expenditure for the upkeep, reconstruction and extension of military buildings is included in the accounts of the Ministry of the Interior.²

In all these cases, it is necessary to extract from the budget accounts of the civilian departments such national defence expenditure as they include. The operation presents

¹ This represents expenditure connected with national defence and included *en bloc* in the civil budgets.
² Other examples are given in Annex 6.

no difficulty where the expenditure to be extracted is clearly separated in the accounts, as, for instance, in the case of the expenditure on the gendarmerie and Mobile Republican Guard in France, which is included in the budget of the Minister of the Interior, and of nearly all the expenditure on the carabinieri in Italy, and the greater part of the military expenditure by civil ministries in Czechoslovakia (Military Chancery of the President; treasury fund for the material requirements of national defence).

It sometimes happens, however, that military expenditure is combined in the accounts with other expenditure. In order to ascertain the amount of military expenditure, it is thus necessary to apportion the sums entered in the accounts. During its examination of the material supplied by the various countries, the Committee has had occasion to consider several cases of this kind: it has observed that the apportionment has been made sometimes with the assistance of the internal documents of the administrations concerned, sometimes by estimates based on past experience. A few examples will illustrate how the problem has been solved by various countries.

In *France*, the Ministry of Agriculture is entrusted for economic reasons with the breeding and purchase of horses on behalf of the State: a proportion of these horses is intended for use by the armed forces. It has therefore been necessary to split up certain credits shown in the budget of the Ministry in question in order to establish the proportion of the expenditure relative to national defence.

Thus, out of an aggregate credit of 15,800,000 francs in respect of the salaries and wages of personnel attached to stud farms, and the remuneration of the Committees responsible for purchasing horses and mules for the army, it has been possible, with the help of internal documents, reproduced in a published report of the Accountancy Office, to calculate at 508,743 francs the sum representing national defence expenditure incurred out of the credit in question (pay of officers seconded to the army remount purchase committees, 350,204 francs; and cost of tours and missions of this committee, 158,539 francs).

In the accounts showing the application of the budget of *Sweden*, a credit entered under a special head for "Unforeseen expenditure" was observed: out of this credit, expenditure totalling 1,271,601 Swedish crowns was incurred during the year 1929-30. With the assistance of internal documents, it was possible to identify the exact amount of military expenditure shown under this head—namely, 231,856 Swedish crowns.

Again, it sometimes happens that the mixed services referred to above (*e.g.*, cartographic, hydrographic, meteorological, geodesic services, etc.) are administered by civil ministries, and their expenditure accordingly is shown in the accounts of these ministries. In such case, the proportion of this expenditure representing the military activities of these services should be shown in the Model Statement, and the States concerned should give the reasons for the distinction when they are able to make it from their internal documents.

Much national defence expenditure appearing in the accounts of civil ministries can therefore be shown separately in the accounts. Their expenditure calls for apportionment, for which the States concerned have the necessary data. In the Committee's opinion, the errors liable to arise from such apportionment are not calculated to affect the accuracy of the total figure for defence expenditure, owing to the very small amounts involved.

The Committee recommends that military expenditure of any considerable amount appearing in the mixed headings of the civil budgets should be shown in an official document.

(4) *Expenditure in special accounts.* It is thus established that by far the greater part of the national defence expenditure effected by the States (central authority) appears in the budget accounts; but the Committee has found that, in certain countries, also national defence expenditure is shown in special accounts. In a fairly large number of countries (Germany, Irish Free State, Italy, etc.), there are no special funds for national defence; but in others (Belgium, Denmark, France, Japan, the Netherlands, Poland, Sweden, Switzerland, the U.S.S.R. and Yugoslavia), there are such funds, though they are almost always included in the general State accounts in a more or less detailed form.

The following table shows the amount of national defence expenditure shown in special or extra-budgetary accounts with the percentage of such expenditure in relation to the totals in the Model Statements:

		Special Accounts	Percentage of the total of the Model Statement
Belgium	Francs	4,702,118	0.3
United Kingdom	£	793	—
Czechoslovakia	Korunas	37,500,000	2.1
Denmark	Krone	107,921	0.2
France	Francs	13,161,147 ¹	0.1
Japan	Yen	637,333	0.1
Netherlands	Florins	4,607,100	2.4
Poland	Zlotys	9,869,500	1.1
Sweden	Krone	6,156,206	4.5
Switzerland	Francs	7,404,611	6.5
U.S.S.R.	Roubles	22,952,430	2.1
Yugoslavia	Dinars	465,310,810	17.2

The accounts of these funds are generally subject to the same supervision as the accounts in execution of the budget—that is to say, to the scrutiny of the Courts of Audit or other higher auditing authorities (see second part of the report). It should also be observed that the explanations furnished by various delegations revealed a certain tendency in favour of the abolition of these funds, or at least the insertion of the expenditure charged to them in the general accounts. The interest which the Parliaments and Governments themselves have in obtaining an exact balance-sheet of their income and expenditure is an argument in favour of the abolition of funds of this kind.

Subject to the considerations developed below on this subject, the Committee believes it is possible to find in the accounts all national defence expenditure effected out of special funds.

II. EXPENDITURE EFFECTED BY REGIONAL OR LOCAL AUTHORITIES.

1. Colonies.

It should be observed in the first place that the term "Colonies" is understood by the Committee to refer solely to communities not possessing a sovereignty of their own in the international domain, whose expenditure has therefore to appear in the Model Statement of the Power representing them at the Conference. The British dominions are States Members of the League and, as such, must prepare separate Model Statements.

It is common knowledge that colonial defence expenditure is borne in proportions which vary greatly in the different States, partly by the budgets of the home countries and partly by the general budgets of the colonies. We are mainly concerned here with the latter expenditure, the importance of which, in relation to the national defence expenditure totals of the States concerned, is shown in the following table drawn up on the basis of the Model Statement:

		Expenditure by the Colonies ²	Percentage of the total of the Model Statement
Belgium	Francs	107,717,535	7.5
United Kingdom	£	4,002,742	3.6
France	Francs	209,023,410 ³	1.6

¹ The expenditure shown above represents the amounts of sales of manure by bodies of troops. Though there is no special account for such sales, the expenditure is shown in the table because it does not appear in the final accounts.

There is a special fortifications account in France, established under the Law of January 14th, 1930. No expenditure was entered to this account in 1930-31.

² All the national defence expenditure of the Spanish colonies is borne by the home country.

³ (1) Expenditure borne by the various general or local colonial budgets for the maintenance of military personnel outside the cadres (77,572,350 francs); (2) expenditure included as contribution to the State

		Expenditure by the Colonies ¹	Percentage of the total of the Model Statements
Italy	Lire	464,086,321	7.5
Netherlands	Florins	119,182,205	62.2
Portugal	Escudos	65,305,267	12.4

This expenditure borne by the colonies may be found in their closed accounts. Sometimes it is finally charged to the colonies (in Belgium, the United Kingdom, France, Netherlands and Portugal), and sometimes it is in fact covered by subsidies from the home country.

In the various cases considered, the Committee found that colonial defence expenditure could easily be scheduled. In the special case of the Dutch East Indies, where the expenditure is relatively very large, the national defence expenditure can be found in the accounts of the colonies as easily as the national defence expenditure of the home country can be found in the home country's accounts.

NOTE.

The Committee devoted attention to national defence expenditure incurred by mandated territories and some sovereign States having special links with certain Powers represented at the Conference. With regard to expenditure of this nature, the Committee thinks it best to confine itself to the following observations and recommendations:

(a) *Military expenditure of Mandated Territories.*

In the documentation, it was observed that the mandatory States had adopted different rules. Certain States have included in their Model Statement all military expenditure relating to the mandated territories and defrayed by the home country but have excluded military expenditure borne on the local budgets of the mandated territories. Other Powers, on the other hand, have included all expenditure without distinction. Whether a mandatory State should include in its Model Statement the expenditure borne by the State under mandate is a matter that cannot be settled by the Technical Committee; but a uniform rule should be adopted on this point for all countries—that is to say, it should be decided whether all the military expenditure of mandated territories is to be included in the mandatory Power's Model Statement or whether mandated territories, which are legally sovereign States, should furnish separate statements. The nature of the mandate will, of course, have to be taken into consideration.

(b) *Military expenditure defrayed by certain States having special links with the Powers signatory to the Convention.*

This head covers, for instance, the military expenditure of the Indian States, the Sultanates of Johore, Sarawak and Zanzibar, the Sultanates of Sulu and Djokikarta in the Dutch Indies, Outer Mongolia, the Bey's army in Tunis, the Black Guard of the Sultan of Morocco, etc.

According to the Committee's present information, these troops are primarily intended to maintain internal order and to form guards of honour; and the Committee therefore thinks that unless any change takes place in the organisation or employment of these troops, it would be better not to bring them under the machinery of limitation.

(c) *"Partisan" forces.*

In the possessions of certain Powers there are military organisations of a peculiar nature—real "partisan" forces ² which generally have an irregular military organisation and are almost always employed to keep the peace on the frontiers of those possessions. The decision to be taken on this point will depend on the definition the Conference gives of formations organised on a military basis. Certain Powers have included such expenditure in their returns.

ture on the maintenance of land forces (89,497,970 francs); (3) expenditure for the gendarmeries of Algeria and Morocco (35,948,180 francs); (4) expenditure for naval forces paid out of credits entered in the general and local budgets of distant colonies (6,004,910 francs).

¹ All the national defence expenditure of the Spanish colonies is borne by the home country.

² "Goums", Sahara companies, nomad groups, Moroccan "partisans".

2. Regional and Local Collective Entities in the Home Country.

The following table, extracted from the diagram on page 58, shows for the countries named the proportion of national defence expenditure borne by regional and local collective entities (including the federated States in countries with a federal constitution) as a percentage of the total expenditure shown in the Model Statement submitted to the Conference:

United Kingdom	0.1 %	Switzerland	2.7 %
France	0.5 %	U.S.S.R.	1.8 %
India	4.0 %	Yugoslavia	0.3 %
Italy	0.9 %		

In the other countries whose documentation it examined, the Committee found no national defence expenditure charged to regional and local collective entities. There is, indeed, a general tendency to relieve regional and local entities from all expenditure in respect of national defence and to charge it to the central Government. This is a tendency on which emphasis should be laid. In France, for example, expenditure on housing for the gendarmerie, which was borne on the departmental budgets until 1931, is now charged to the Ministry of War. In Italy, the Air Ministry has recently undertaken to defray certain expenditure on landing grounds which until 1931 had been borne by the provinces.

(a) *Federated States in Countries with a Federal Constitution.*

An interesting illustration of this centralising tendency is to be found in countries *with a federal constitution* in which formerly each of the *separate States* was responsible for organising and maintaining its own army. In *Switzerland*, for instance, down to the middle of last century, the armed forces consisted almost entirely of cantonal contingents organised, equipped and trained by the cantonal authorities. Since that time, the direction and administration of national defence have gradually become the responsibility of the federal authorities. To-day, the supreme control of the army is vested in the Federal Council. The command,¹ recruiting, armament and training are provided by the federal services. The cantons can use the armed forces of their respective territories only so far as the Confederation itself is not using them; they sometimes avail themselves of this right in the event of natural disaster or internal disturbances. The administrative powers that the cantons have retained consist in the maintenance of certain barracks and arsenals and the keeping of certain registers; they are also responsible for the preservation of certain material in good condition. The cost of these services is, however, almost entirely refunded by the Confederation. On the basis of the figures shown in the closed accounts of the cantons, after deducting the above-mentioned refunds, it has been established that the total expenditure of the cantons on national defence for the year 1930-31 amounted to 3,052,815 francs.

This amount, which has been shown in the Model Statement, represents only 2.7 per cent of the total national defence expenditure.

A similar tendency has been displayed in the *United States of America*. During the War of Independence and the War of 1812, most of the armed forces consisted of the State Militias. Thus, in 1812, out of a total of 527,654 men, 458,463 belonged to the State Militias (Report of the Secretary of War, 1930, pages 76 *et seq.*).

During the War of Secession, the forces of the Federal Army, in the strict sense of the term, never numbered as much as 40,000 men, but the volunteers in the regiments of the various States numbered 2,700,000 men. In these regiments, all the officers except those on the Staff were appointed by the States and not by the Federal Government.

During the war with Spain and the Great War, the ties between the Militias of the various States and the Regular Army were constantly being drawn closer, and this state of affairs was perpetuated by the National Defence Act of June 4th, 1920.

¹ But the cantons appoint the officers of infantry battalions and of certain cavalry squadrons.

Certain expenditure in respect of National Guard formations is still borne by the various States, but a large part of it will henceforth be borne by the Militia Bureau of the Federal War Department (\$33,015,000 in 1930-31). The expenditure incurred by the various States was not communicated to the Committee, and the question whether the above-mentioned formations should be regarded as formations organised on a military basis has not yet been settled by the Conference. It appears from the statements of the American delegation, however, that the expenditure borne by the States is not very great.

In *Germany*, the *Länder* lost in 1919 their pre-war right to their own armies. Under the Weimar Constitution, the central Government is responsible for the maintenance of the armed forces properly so called.

In *British India*, the Native States defray certain more or less negligible expenditure, the amount of which has been shown in the Model Statement.

(b) *Other Regional and Local Collective Entities.* Other regional and local *collective entities* also sometimes share to some extent in the national defence expenditure. It appears from the documentation that, in some countries, the departments, provinces, communes, or other administrative units supply certain funds for national defence.

In *France*, a proportion of the expenditure of the Republican Guard is borne on the budget of the City of Paris. In France, too, municipalities sometimes pay to the State contributions in aid of the construction of barracks. To provide for the funds contributed by the departments and communes jointly with State funds for construction of military buildings, a credit for a corresponding sum has been opened by decree, in addition to the credits granted by Parliament for the same work.

In *Germany*, municipalities sometimes erect barracks at their own expense, and the State pays the rent (interest and amortisation on the capital sunk), charging it to the national defence credits. In the *United Kingdom*, some municipalities have laid out and are maintaining landing-grounds, but, in so far as they are used for military purposes, expenditure is refunded by the military authorities and is included in the returns. In *Switzerland*, the communes provide premises for recruiting, rifle-ranges for sporting and military practice, etc. In the *U.S.S.R.*, the regional and local budgets provide funds for the hire and upkeep of accommodation for certain troops and military administrations; they defray part of the expenditure on pre-military training and mobilisation centres. This expenditure amounts in all to 19,928,000 roubles—only 1.8 per cent of the total expenditure on national defence.

The Committee was able to study a considerable number of cases of this kind in the light of the information and explanations supplied by the delegations concerned. Some delegations, moreover, themselves corrected certain figures in the Model Statements in consequence of the discussions in the Committee.

This expenditure by regional or local collective entities appears in their respective accounts. These accounts vary extremely in character. The accounts of the German *Länder* are as detailed as those of sovereign States; those of the Federated Republics in the *U.S.S.R.* are fused with the accounts of the Central Government. The single budget of the *U.S.S.R.* and the relevant accounts contain separate figures for the Central Government and for each Republic, as well as the total figures. In such cases there is no greater difficulty in identifying the national defence expenditure there shown than when the expenditure is entered in the general accounts of the sovereign State. When, as frequently happens, the accounts of such regional collective entities as provinces, departments, and communes are not very detailed, discrimination is more difficult. In some countries, these collective entities are very numerous and, in order to determine the expenditure borne by them, resort must be had to calculations and estimates.

In conclusion, the Committee has had to admit that it is not always possible to compile a perfectly accurate and full account of the national defence expenditure incurred by regional or local collective entities. It is, however, clear that this expenditure

is small, and there is a growing tendency to enter all national defence expenditure in the State accounts. The Committee therefore considers that the errors that can arise from the expenditure of regional or local collective entities in the home country are almost insignificant. It should, however, be noted that, if the expenditure of formations organised on a military basis were included in the Model Statements, the percentage of expenditure borne on the budgets of regional or local collective entities would undoubtedly be substantially increased, at any rate in federal States.

B. PROBLEMS RAISED BY CERTAIN PECULIARITIES OF ACCOUNTANCY.

The fact that it is possible to identify in the accounts the vast bulk of national defence expenditure does not of itself solve the problem as to whether it is possible to ascertain with sufficient accuracy the total amount of national defence expenditure.

For this to be done, account must be taken of certain peculiar features of public accountancy, and also of certain administrative methods.

In this connection, the Committee found it must devote special attention to the following questions:

- (a) Special funds;
- (b) Autonomous establishments;
- (c) Subventions, loans and participations;
- (d) Expenditure effected out of the proceeds of loans;
- (e) Gross and net accounts;
- (f) The special case of deductions from pay;
- (g) Amounts in respect of donations and bequests for national defence schemes.
- (h) Losses on exchange.

(a) **Special Funds.** Expenditure effected out of special funds for national defence purposes should be entered in the Model Statement in the same way as expenditure out of budgetary funds.

There are, however, cases of a special fund earmarked for national defence purposes being wholly or partly financed out of credits granted by the public authorities to the defence services. It would be impossible without duplication to show in the Model Statement both the sums transferred from the budget to the special fund and the actual expenditure met out of that fund. It is the expenditure actually effected out of the special fund which makes it possible to achieve the fund's objective or discharge the services which it is actually bound to render to national defence, and therefore, as a general rule, only the expenditure effected out of this fund during the year should appear in the Model Statement.

The accounts of the special funds are nearly always included in the closed accounts. For example, the closed accounts of Switzerland and Norway include the expenditure and revenue of a very large number of funds which are shown perfectly clearly. With the help of the closed accounts, States are therefore always in a position to calculate the total amount actually expended out of those funds in the course of each year. It will, moreover, be remembered that the practice of special funds is not general. The Committee has found only a small number of cases where the accounts of special funds are not included in the closed accounts, and the material laid before the Committee does not in any case give any grounds for assuming the existence of funds for national defence purposes which do not come under the ordinary supervision of the higher auditing authorities. The Technical Committee therefore believes that no special difficulties will be found in inserting in the Model Statement the annual expenditure borne on special funds.

" *Fonds de masses.* " There is, however, one case where it would be difficult to enter in the Model Statement the annual expenditure actually paid out of special funds. In several countries, army units receive lump-sum grants charged to

budgetary credits, out of which they pay the maintenance costs of their establishment of men and mounts. These grants enable a unit to feed, clothe, billet and equip the soldiers, provide harness and food for the animals and pay for current barrack repairs, for the furnishing, heating and lighting of premises and sometimes even for the current upkeep of arms. These funds are administered by the units themselves, whose property they to some extent are. Usually, there is no settlement of accounts at the end of the year between the State and the units, whose balances are thus carried over from one year to the next. If it were proposed, therefore, to ascertain the exact expenditure during a year out of these funds, very complicated calculations would have to be made and would prove really useless in practice, as the lump-sum grants are generally strictly calculated on the basis of requirements and do not allow for the accumulation of large reserves. The Committee thinks that in such cases the transfers made from the budget to these funds should be entered in the Model Statement. These transfers are, after all, payments made by the State to the unit; they appear in the closed accounts and they can be inserted in the Model Statement with all the necessary accuracy.

**(b) Autonomous
Establishments
for
Manufacture or
Construction
of Warlike
Equipment.**

The Committee of Experts had already directed attention to the special character of certain autonomous State establishments for the manufacture or construction of material employed for purposes of national defence. The accounts of these autonomous establishments are kept on a virtually commercial basis. The national defence services pay them directly for articles or material delivered, as they would do in the case of a private firm. The establishments in question thus effect the major part of their expenditure by means of the sums paid to them by the national defence services for the material delivered. The Technical Committee proceeded to study the actual situation in the various States as it appears from the documents submitted to it. This enquiry shows that, in several countries, no autonomous State establishments exist for purposes of national defence (Belgium, Germany, India, Italy, Norway, Roumania, U.S.S.R., United States of America, Yugoslavia). There are, however, one establishment of this kind in the United Kingdom, one in Czechoslovakia, three in Denmark, one in France (*service des poudres*), four in Japan, one in the Netherlands, five in Poland, and seven in Switzerland. Therefore, the practical importance of the problem raised by autonomous establishments must not be exaggerated. But the Committee realised, notwithstanding, that, as a matter of principle, it was important to study the problem.

The legal proof of the observance of undertakings in regard to limitation will be supplied by entering in the Model Statement the payments included in the published accounts. Now, the closed accounts of the national defence departments show the payments corresponding to the supplies delivered by the autonomous establishments. Any payments on capital account that might be made by the State to those establishments for the improvement of their equipment or plant or payments to cover deficits are generally shown in other sections of the closed accounts. From the point of view of accounts, therefore, those establishments are treated as if they were simply private undertakings—that is to say, the payments in respect of the material delivered by them appear in the closed accounts.

Since, however, the autonomous establishments are administered like private industrial or commercial undertakings, it would be well to consider what will happen in the event of their accounts showing a deficit or profit.

If a profit is made by an autonomous establishment engaged solely in the supply of material to the national defence services of the country in which it is situated, it may be assumed that these services have paid a price higher than the cost of production. If the establishment pays over the profit to the Treasury, this profit should be deducted from the sums paid to the establishment by the defence services, since the former has actually received only the difference between the value of the deliveries and the sum paid over

to the Treasury. If, on the other hand, the profit is used for the benefit of the establishment or for other national defence purposes, it should not be deducted.

But if, as is sometimes the case, the establishment also sells material to private individuals, the profit shown may be explained by the charging of higher prices to private individuals, and it might also be inferred that the State establishment sold its products to the national defence services at a price below the cost of production. If, in such cases the establishment uses its profit for its own benefit or for other national defence purposes, expenses paid out of that profit should be included in the statement. Cases of this nature become of particular importance when it is remembered that some of these establishments are in the nature of a monopoly, since a monopoly is free to fix its own prices.

If the autonomous establishments show a deficit and this deficit is made good by the State, the total subvention accorded to the establishments by the latter should be stated in the Model Statement.

In order to allow for all these factors, the Committee enquired into the possibility of showing in the Model Statement, not payments made by the State as the counterpart of deliveries, but the expenses of establishments engaged in the manufacture or construction of material for national defence. It would appear that it would thus be possible to include in the Model Statement any increase in stocks or capital and also to allow for any advantage accruing to the State in cases in which such establishments sell material to it at prices below the cost of production.

Any solution along these lines would, however, involve serious difficulties. It would, in the first place, necessitate a minute examination of the accounts of autonomous establishments, and the figures of expenditure shown would no longer be based entirely on the figures appearing in the published closed accounts, except in cases where the accounts of those establishments are inserted in the closed accounts. The checking of the transfer to the Model Statement of figures appearing in the closed accounts would thus be very much more difficult.

The Committee has come to the conclusion that, in reality, all the difficulties arising in the case of autonomous establishments are due to the fact that some of these autonomous establishments deliver material to the national defence services, and also sell to civil services and to private individuals. But the data supplied and the evidence of administrative experience have convinced the Committee that the materials manufactured by autonomous State establishments working for national defence are not, as a rule, materials of current use and that, in consequence, very little importance is to be attached to sales to civil organisations and private persons. It is therefore improbable that, by selling these materials to private individuals at very high prices, the State autonomous establishments are enabled to supply materials to national defence services at prices obviously below their cost of production and thus to decrease the volume of national defence expenditure. Autonomous establishments are not, as a rule, organised with a view to profit, and, if certain countries have organised these establishments upon a commercial basis, they have done so in order to be able to supervise closely the management of the establishments and the proper employment of the funds paid over to them by the defence services in exchange for the material supplied. These autonomous establishments are, moreover, subject to the same supervision as non-autonomous establishments.

The Committee has thus come to the conclusion that Governments should show in the Model Statement payments made for the purchase of material and for supplies delivered by autonomous establishments, as well as capital payments by the State in their favour. With a view, however, to the detailed supervision of the management of these establishments, the Committee suggests that there should be inserted in the Convention a clause by which States possessing autonomous establishments will be bound to supply each year a complete account of their receipts and expenditure. As the Committee has ascertained that such accounts already exist in a certain number of countries and are included in the general accounts of the State or in annexed accounts (as, for instance, in the case of the *Service des poudres* in France), it considers that Governments which do not at present produce accounts of this kind would meet with little difficulty in supplying the documentary material necessary in order to form an opinion on the activities of autonomous establishments.

In addition, in order to remove any apprehension lest a State should by means of autonomous State establishments secure deliveries of material for national defence at prices below the cost of production, the Committee also suggests the insertion of a clause by which States possessing autonomous establishments would undertake that such establishments shall supply their materials for national defence services at rates based upon the actual cost of their manufacture.

(c) **Subventions, Loans, and Participations.** As has already been stated in Chapter II, the Committee decided to regard as national defence expenditure subventions, loans, and participations granted by the State to private enterprises the activities of which include the manufacture in time of peace of specifically military material.

The State may grant such subventions directly. In that case, their amounts are to be found in the closed accounts of the national defence or other ministries, and the transfer of the State subsidy to the statements of expenditure occasions no difficulty. The same is, moreover, true when such subventions are granted in the form of an increase in the sale price of materials delivered, as in this case the actual amounts of delivery invoices are entered in the closed accounts.

Subventions may also be granted through holding companies or banking institutions in which State capital has been invested. In such cases, all that is shown in the closed accounts is the payment made to the intermediary company or institution. If the State receives interest or profits, it also comes to light in the public revenue account. But the accounts do not make it possible to ascertain the precise amount of the subvention granted by this intermediary to the undertakings concerned. In such cases, however, all States can ascertain the amount of the subventions, and are required under the Convention to insert them in the return. The balance-sheets and accounts of the private armament undertakings also show the amounts of such subventions. The importance of this fact will be shown further on, when the supervision of the application of the Convention is considered.

(d) **Expenditure effected by Means of Loans.** The Committee gave consideration to cases in which certain items of national defence expenditure are effected by means of the proceeds of loans. This question is of particular importance because, in some budgets, a distinction is drawn between current expenditure and extraordinary expenditure—that is to say, expenditure based on the proceeds of loans. Following the fundamental rule governing its work, the Committee took the view that the Model Statement should contain the annual expenditure met from such proceeds. But the question then arose whether expenditure in respect of the amortisation of and interest on such loans should be regarded as national defence expenditure and included in the Model Statements.

If the Model Statement were made to include both the actual expenditure out of the proceeds of loans and that in respect of amortisation and interest, duplication would certainly occur.

The Committee therefore considers that only the expenditure actually met from the proceeds of loans in the course of a given “exercice” must be included in the Model Statement, to the exclusion of expenditure on amortisation and on interest paid by the State on such loans.

The Committee ascertained during its examination of the documents that compliance with such a rule could not occasion any difficulty.

(e) **Gross Accounts and Net Accounts.**¹ As indicated in Chapter III, it is known that, in certain States, the national defence services receive, in addition to the budget appropriations, certain revenues which they are authorised to retain and utilise. In order therefore to determine the real expenditure of those services, expenditure from revenues received by them must be added

¹ The question of exemptions from taxation granted by Governments to autonomous establishments or to private undertakings manufacturing war material may be considered in connection with the general

to the expenditure out of budget appropriations. In short, it is necessary to work out the total of *gross* expenditure on national defence.

In examining the information submitted to it, the Committee ascertained whether, in accordance with the recommendations of the Budgetary Experts, all the States in which the defence services are authorised to receive revenue had included in the statement the expenditure met from such revenue. This task did not present serious difficulties, as the closed accounts mostly enable expenditure out of budget appropriations to be distinguished from expenditure out of special revenue. Moreover, the delegations supplied the fullest details on the subject.

The gross expenditure cannot be accurately computed, however, unless, as indicated in the Budgetary Experts' report, the utmost care is taken to avoid duplication, which may quite easily occur. Accordingly, the Committee adopted rules on the subject, of which some account must be given.

*Transfers of
material from
ministry to
ministry.*

Let it be assumed, for example, that the Ministry of Marine of a State hands over material to the Ministry of War at a specified price: if both ministries include that item in their statements, it will be charged to the State twice over. To avoid such duplication, the only logical course is to decide that the item must be placed in the statement containing the expenditure of the ministry receiving it and deducted from the statement of expenditure of the ministry handing it over. If, therefore, one department of national defence hands material over to another, the first department must deduct from the statement of its expenditure the price it paid for the material, while the other ministry must include that price in its statement.

*Transfers from
Government to
Government.*

Just as duplication of figures must be avoided in the statements regarding the three armed forces of one country, so steps must be taken to preclude duplication in the statements of countries signatories to the Convention on publicity or on the limitation of expenditure. If, for example, a Government sells a ship to another Government, the selling Government must deduct the cost of building the ship, since the ship was not built for that Government; on the other hand, the Government receiving the ship must enter the price paid in its Model Statement, since its fleet is thus increased by one unit. Moreover, no distinction need be made between new material and used or obsolete material. The problem is of particular importance in the Model Statement of the United Kingdom and those of India and the Dominions, which are members of the British Commonwealth, but are separately represented at the Conference and hence supply separate Model Statements. In the course of examining the material supplied by these countries, the Committee found, for example, that certain expenditure was entered in the Model Statements of both India and the United Kingdom. The adoption of the rules which the Committee has laid down will enable difficulties of this kind to be avoided in the future. Moreover, it is obviously in the interests of the States themselves to provide all necessary information on this subject in order that their statements of expenditure may not be unduly increased.

*Price of the
material
transferred.*

The prices of material transferred from one defence service to another or from one Government to another must of course correspond to the real value of the materials transferred; otherwise, the tables relating to the individual armed forces and the Model Statements themselves of the various countries wouldn't correctly represent their

problem of gross and net accountancy. If it exempts these establishments from taxation, a Government will be able to obtain war material more cheaply, since the amount of taxes and charges is included in the cost of production of the material. The importance of this phenomenon may vary according to the conception of production in the various States. But the interest of this consideration is lessened by the impossibility, admitted by the Committee, of comparing the military efforts of the various countries on the basis of expenditure figures. The chief point is that the *de facto* situation in each country at the time the Convention is signed should not be changed in the course of its execution, or that any changes should be brought to the notice of the permanent supervisory body.

respective expenditure. The fundamental clause whereby expenditure entered in the statements must represent the actual and final utilisation of the sums in question would thereby be infringed. At the same time, there are, in principle, exact rules for transfers, which are generally effected at prices fixed by regulations or based on the accounts for the manufacture of the material.

Nevertheless, in order to prevent any infringement likely to cause statements of expenditure to be misleading, the Committee proposes a special clause whereby States will undertake to include transfers for a consideration between the defence services or between Governments on the basis of the cost of production or the purchase price, taking into account the factors of depreciation, or, in the event of the replenishment of stocks, the replacement value of the material transferred. Details as to the application of this rule will be given when the "Instructions" are drawn up.

Transfers by the national defence services to private individuals or to civil organisations.

The cases of transfer as between military authorities of any one country and between the Governments of different countries having thus been examined, we have now to consider the cases in which the armed forces deliver material to private individuals or to civil authorities. It would *a priori* be logical to suppose that, if a military department sells material to private individuals or civil authorities, it should have the right to deduct from its expenditure the value of material which it has had manufactured at its own expense, or the value of which has been refunded to it, and which it does not itself use. Such would be the case if a military department sold clothing to postmen or forest-rangers or even arms to private individuals or associations.

But the Committee of Experts of 1931, for sound reasons, took the view that such deductions cannot be authorised. If a ministry of national defence, the services of which are equipped to manufacture material of a specifically military kind, delivers arms or war material to private individuals or civil authorities, it was, in the Budgetary Experts' opinion, to be presumed that such material is intended for purposes of national defence. Transfers of this kind might, if on a large enough scale, facilitate the equipment of the nation for purposes of defence. In the view of the Committee of Experts, therefore, the deduction of receipts derived from sales to civil authorities or private persons should not be permitted.

The Technical Committee shares the misgivings of the Committee of Experts. It has not, however, been able entirely to endorse the Experts' conclusions. The rule of non-deduction cannot be regarded as satisfactory unless it is qualified in certain respects.

It has been seen that State establishments may be of two kinds:

(1) They may be autonomous, in the sense that their accounts are kept on a commercial basis; the national defence ministries pay for deliveries made by such establishments exactly as if they were buying from private firms.

(2) They may be "non-autonomous"—*i.e.*, their expenditure on material, wages, equipment, plant, etc., is shown directly in the budget accounts and, unlike autonomous or private establishments, they do not receive payment from the defence ministries in return for the goods supplied.

The Budgetary Experts of 1931 expressed the opinion that, in the case of autonomous establishments, the only expenditure to be regarded as national defence expenditure was the price paid by the defence ministries for goods supplied, but that, in the second case, the actual expenditure of the establishment itself should be regarded as national defence expenditure.

It follows that, if an *autonomous* establishment sells goods to a civil service or a private person, the cost of manufacturing such goods will not appear in the Model Statement; such is the case in France in regard to the sale of gunpowder to the Ministry of

Finance by the "Service des Poudres", which is an autonomous service. If, on the other hand, the sale is made by a *non-autonomous* establishment, the expenditure *will appear* in the Model Statement. Such is the case in *Sweden* in regard to clothing sold to civil servants by the non-autonomous State clothing factory, and in the *United Kingdom* in regard to the repair of merchant shipping in the Government naval dockyards. In the first case, therefore, expenditure out of the receipts from transfers are deducted, while in the second they are not. It seems difficult to agree to such an inconsistency of treatment.

The difficulty explained above is essentially a difficulty of principle. As a general rule, the Committee cannot estimate the importance of sales made by military establishments to private persons or civil ministries. In the *United Kingdom*, sales to private persons and civil services by the autonomous establishments called the Royal Ordnance Factories amounted in 1929 to approximately £100,000, as compared with £2½ million total sales to the National Defence Departments. As regards the Royal Naval Dockyard, orders executed for private and foreign customers amounted to £600,000 for the same year, as compared with a total output of some £16 million for the National Defence Departments. There were also orders executed elsewhere for private and foreign customers amounting to some £270,000. In *Sweden*, the cost of clothing supplied to civil servants by the non-autonomous establishment represented about 10 per cent of the establishment's total expenditure, though this percentage varies considerably from year to year. In *France*, sales of powder and petrol to the Ministry of Finance and various other customers by the "Service Autonome des Poudres" amounted in 1930-31 to about 121,000,000 francs, as compared with about 300,000,000 francs, representing the cost of material supplied to the National Defence Departments.

It is true that the volume of the expenditure under consideration is in no case very great. The Committee has thought it desirable, however, to endeavour to find a solution which will, as far as possible, eliminate the disparities that would result from the pure and simple adoption of the rule laid down by the Experts, and to consider separately: (a) sales of material to formations organised on a military basis; (b) sales of actual war material to associations which are not considered to be formations organised on a military basis, to private persons or civil organisations, and (c) sales of material other than actual war material.

(a) In Chapter II, it was laid down as a principle that the expenditure of formations recognised by the Conference as being organised on a military basis should be included in the Model Statements. It follows from this rule that the expenditure of such formations on purchases of supplies from Government establishments will be included in the Statement, which should include the expenditure of formations organised on a military basis. To avoid duplication, therefore, the ministries handing over the material must, following the rules laid down above, deduct from the relevant Statement the amount of sales made to formations organised on a military basis.

(b) This first point being settled, it is now necessary to consider sales to civil authorities, private persons, and associations other than those recognised as formations organised on a military basis. The Committee thinks that all the objections mentioned can be met by laying down a rule that the deduction of such sales would not be authorised in respect of sales of war material in the strict sense.

(c) On the other hand, the deduction of receipts would be permitted in the case of sales of all other materials. In order, however, to prevent any improper use from being made of these rules, the Committee thinks it desirable to provide that States making such deductions should show in a publicity table the nature and value of materials other than war material transferred for a consideration to civil organisations or private persons.¹

The Committee has merely considered here the general rules to be applied in respect of deductions. All the explanations necessary for the purpose of removing the difficulties inherent in the reconstitution of the gross expenditure to be inserted in the Model Statement will be given in the "Instructions" to be drawn up later.

¹ Should a national defence service sell material which is no longer of use to the armed forces and take the proceeds of the sale, expenditure out of such proceeds should not be deducted.

**(f) Special Case
of Deductions
from Pay.**

It is customary in almost all countries to include in the gross amount of emoluments the contributions which the various personnel have to pay to pension funds. The personnel do not actually receive the total amount of their emoluments as shown in the budget, part being paid by them direct into a pensions fund or being deducted by the administration in compensation for the State's obligation to pay pensions arrears. As the Committee is of opinion that the pensions themselves must be excluded from the Model Statement in the event of a limitation Convention being established, the question might arise whether the contributions to pensions funds should not be deducted from the statement. The Committee realised the difficulties of making such deductions. It has therefore laid down the principle that the gross amount of emoluments must be entered in the Model Statement. Nevertheless, an examination of the documents submitted shows that, in the U.S.S.R., soldiers do not pay pension contributions, and that, in the Netherlands, certain employees receive the total amount of their pay, while at the same time the State pays for them into the pension fund a contribution proportionate to the amount they receive—that is to say, a contribution corresponding in every way to those included in the total amount of the pay in other countries. These differences of method should not, however, give rise to any complications. The insertion of the gross amount of the emoluments in the Model Statement will doubtless give rise to certain inequalities between States in respect of the contents of their Model Statements, but this is of no importance, because the statements cannot serve as a basis of comparison for the actual armaments of the various States. Moreover, at the present time, there are only a few States which do not include contributions to pensions in the budgetary amounts paid to the personnel.

**(g) Treatment
of Donations
and Bequests for
National Defence.**

In certain countries, the credits granted for national defence are amplified by donations and bequests from associations or private persons. Such donations and bequests amount in every case to very little compared with the total expenditure on national defence. In a considerable number of countries, the armed forces cannot accept donations and bequests without Government authority; the amount of such donations and bequests is added to the credits granted, and expenditure effected out of their proceeds is shown in the accounts on the same footing as expenditure out of budgetary credits.

In *Germany*, the law lays down no special procedure for accounting in respect of donations and bequests. The German expert thinks that any receipts from such sources and any expenditure out of such receipts would be entered in the closed accounts, simply owing to the principles of the German budgetary system.

As regards the *United Kingdom*, it may be said that, for the most part, the donations and bequests are made to meet expenditure for social purposes (pensions, etc.). The only gift made for the benefit of the national defence forces in recent times was a sum of £100,000 in 1931 for the organisation of the Schneider Trophy flying contest. This sum was incorporated in the Air Force appropriations, and the corresponding expenditure was entered in the audited and published accounts. Most of the commands and units have private funds derived from subscriptions, sales of tickets, and generally used for the organisation of military fêtes. This expenditure has not been regarded as national defence expenditure. It is not included either in the estimates or in the accounts. It is regarded as private expenditure, and on this account is privately audited.

In *France*, when bequests and donations are made to the State or to various Government departments, a credit for a sum equal to their proceeds is opened by decree under a special head of the budget entitled: "Employment of funds derived from bequests or donations", and the corresponding expenditure is shown in the accounts of the National Defence Ministries.

In *Italy*, the military authorities cannot accept donations or bequests without authorisation from the National Defence Ministers. If such donations or bequests are made for the purpose of providing contributions of a permanent character, the status of legal personality is conferred upon them. All the donations and bequests so far authorised are for the provision of assistance for soldiers. If any donations and bequests were made for national defence purposes, their proceeds would be paid into the State budget, and the corresponding expenditure would appear in the accounts of the National Defence Ministries.

In *Japan*, donations and bequests from private persons or associations, for national defence purposes, other than those earmarked for scientific research, are as a rule incorporated in the Treasury revenue and accounted for in the accounts of the ministries of national defence.

In *Switzerland*, expenditure out of the proceeds of donations and bequests made for national defence purposes appears in the State accounts. Mention may be made of the military air fund established by national subscription in 1913.

In the *U.S.S.R.*, the armed forces have the direct control of the proceeds of donations and bequests. As has been mentioned in Chapter II, the sums paid by the "Ossovikhin" and "Avtodor" associations have been included in the *U.S.S.R. Model Statement*.

Notwithstanding the relatively small size of the sums in question in the various countries, it would be desirable, to avoid any possibility of error, that the Convention should contain provisions to the effect that all States are required to include in their accounts the proceeds of any donations and bequests received by the armed forces and the expenditure effected out of such special resources.

(h) **Losses on Exchange.** The budgets and accounts show the expenditure in the respective currencies of the countries concerned, including expenditure for payments abroad. As the rates of exchange are liable to fluctuate and, in certain cases, depart to a varying extent from par, the expenditure shown in the accounts of the national defence departments will not represent the real expenditure, so far as concerns payments abroad, unless the departments themselves procured the necessary foreign exchange for those payments or bought it from the Treasury at the actual rate that the Treasury paid for it. Otherwise, part of the expenditure would appear, not in the national defence accounts, but in those of the Treasury. Where there are only slight fluctuations, this difference can be ignored, but the question may be of some importance in countries where, the national currency having substantially depreciated, the Treasury charges the national defence departments only the amounts exactly corresponding to par of exchange. It must also be mentioned that, in some countries, transactions in foreign exchange are at present controlled, and that the rates officially fixed do not always correspond to the rates ruling abroad, while their currencies are not always quoted abroad.

It appears from the material laid before the Committee that the accounts and Model Statements of the majority of countries show expenditure abroad at the rate of exchange on the day on which the foreign currency was purchased or on the day of settlement. In the *U.S.S.R.*, however, the amounts are debited at par according to the official rate of exchange established by the State bank. In Austria, Spain, and Japan, the national defence accounts show only expenditure calculated at par, and the difference between that and the actual rate is not shown in the Model Statement.

The Committee is of opinion that the rule that all national defence expenditure without any exception must be included in the Model Statement implies that expenditure in respect of purchases and services obtained abroad must be shown in the national currency at the rate of exchange ruling on the day when the currency used in settlement was purchased.

* * *

Conclusion. Having found that by far the greater part of national defence expenditure is shown in the accounts of the national defence ministries and can therefore easily be traced, although there may be some difficulties of interpretation as regards the real nature of certain expenditure shown in other accounts.

The Committee, as the conclusion of its investigations, considers that every country will be in a position to compile, for practical purposes, a complete statement of its national defence expenditure within the meaning of the Convention.

Chapter VIII.

WITH WHAT DEGREE OF ACCURACY IS IT POSSIBLE BY MEANS OF PUBLISHED ACCOUNTS TO VERIFY THE TOTAL NATIONAL DEFENCE EXPENDITURE OF EACH STATE ?

A. GENERAL OBSERVATIONS.

In the previous chapter, the Committee defined the obligations the execution of which by the various States will ensure the insertion of the entire expenditure on national defence in the Model Statement. The Committee considers it necessary to determine to what extent it will be possible for the Permanent Disarmament Commission to verify the complete account of national defence expenditure drawn up by each State.

This chapter deals purely and simply with the verification of the total expenditure on the basis of the published and audited accounts—that is to say, with the method of ascertaining that the latter are in order—but it is obvious that this verification constitutes only one element of the supervision over the execution of the Convention. This supervision, as will be seen later in Chapter XIX, will be based essentially both on the observation of the financial effort devoted by each State to its national defence and also on a knowledge of the military and administrative institutions of the various States. This supervision will facilitate the verification operations and will enable correct conclusions to be drawn from them. In view, however, of the importance which the Committee attaches to the correctness of the complete account of the national defence expenditure of each State, it considered it necessary to indicate at the present stage the degree of exactitude which that verification may be expected to attain.

The first condition enabling an expenditure figure to be checked is that it should appear in a published and audited account. The Committee found that, in the case of a number of countries, all the national defence expenditure figures are entered in published and audited accounts, while in other cases, although almost all the expenditure appears in published and audited accounts, some of it does not. Although the first condition necessary to enable expenditure figures to be verified is in general fulfilled, it cannot on that account be inferred that the aggregate expenditure on national defence would be entirely verifiable. The only figures in the accounts which can be strictly verified are those which can be transferred *en bloc* to the aggregate figure for national defence expenditure. On the other hand, if the sum given under a heading in the account comprises both military and civil expenditure, that sum must be subdivided to show the part of the expenditure to be included in the total amount of expenditure on national defence. This subdivision, carried out by the individual States on the basis of internal documents or estimates, may be correct, but it will not actually be verifiable by an international supervisory body, if that body does not know and cannot ascertain the data on the basis of which the subdivision was made.

B. NATIONAL DEFENCE EXPENDITURE BORNE BY THE CENTRAL AUTHORITY.

By far the largest proportion of the national defence expenditure figures in the accounts of the central authority. This is found:

- (a) Mainly in the budgetary accounts of the ministries of national defence;

(b) In a few special cases and in proportions varying according to the countries, in the budgetary accounts of the ministry of the colonies;

(c) As regards a comparatively small proportion in the budgetary accounts of the civil departments;

(d) Lastly, a certain proportion of national defence expenditure of the central authority is found in special accounts.

(a) **Insertion in the Model Statement of National Defence Expenditure included in the Budgetary Accounts of the Ministries of National Defence (War, Sea, Air).**

Expenditure appearing in the national defence budgets which is not national defence expenditure within the meaning of the Convention.

It should be pointed out that, in certain budgetary accounts of these three defence departments, expenditure is inserted which is not national defence expenditure within the meaning of the Convention and should therefore not be included in the Model Statement. In every case which it has been possible to examine from the documentary material supplied, this expenditure is shown under special items in the accounts, and its deduction does not offer

any difficulty from the point of view of verification.

Mixed services.

It has been seen in Chapters II and VII that the national defence budgets include expenditure on mixed services such as the cartographic, hydrographic, meteorological and fisheries supervision services. The Committee adopted the principle that States should include in the Model Statement a proportion of this expenditure corresponding to the military activities of those mixed services and should state on what basis the proportion relating to national defence has been estimated.

Each State will thus make this distinction according to its internal documents and the practical knowledge it may have of the services rendered by such institutions to national defence.

It will not be possible for the Permanent Disarmament Commission to supervise merely by means of the closed accounts the insertion in the Model Statement of the proportion of the expenditure of these mixed services which is of military value. But if the relative importance of the proportion of this expenditure entered in the statement as compared with the total expenditure on each mixed service varies from one year to another, the Commission may ask the State concerned for explanations. It should also be pointed out that the amount of this expenditure is small compared with the whole expenditure on national defence.

Military aviation and civil aviation.

In the United Kingdom, France and Italy, there is only one Air Ministry which administers both civil and military aviation. Since, unless a decision to the contrary is taken, only expenditure on military aviation is to be included in the Model Statement, a very careful distinction should be made between expenditure on military aviation and expenditure on civil aviation, the former being included in the total national defence expenditure and the latter excluded.

The observance of this distinction will not cause any appreciable difficulty when, as in the case of the United Kingdom and in Italy, the expenditure on civil aviation and that on military aviation are, with a few trifling exceptions, shown separately in the accounts.

In France, it will be remembered, military expenditure on aviation and civil expenditure, which are shown separately as such under separate sub-heads of the accounts of the Air Ministry, amount to 67.8 and 10.1 per cent of the total account of the Air Ministry. In the case of this expenditure, there is no difficulty in supervising the transfer of military expenditure to the Model Statement and the exclusion therefrom of purely civilian expenditure. But 22.1 per cent of the total account represents mixed expenditure. A distinction between military expenditure and civil expenditure as regards this proportion

of aviation expenditure can be made only by means of internal documents and with a practical knowledge of the actual institutions. It is therefore certain that the Permanent Disarmament Commission will not be able, from the closed accounts alone, to form a correct idea of the manner in which this apportionment has been effected. The Permanent Disarmament Commission will be able, however, to ascertain that from year to year the apportionment of mixed expenditure is effected on the same basis and, if there is any change, to ask for the necessary explanations. If the provisions of Article 37 of the draft Convention came into operation and if a special publicity in regard to civil aviation expenditure was accordingly instituted, this publicity, which should be accompanied by every guarantee of accuracy, would facilitate supervision of the transfer to the Model Statement of the expenditure on military aviation.

**(b) National
Defence Expendi-
ture borne
by the Ministry
of the Colonies.**

In some countries certain national defence expenditure is borne on the budget of the Ministry of the Colonies. This expenditure relates to the maintenance of the armed forces in distant possessions. This is the case in France, where, the Committee found, expenditure of this kind appears under special heads in the budget of the Ministry of the Colonies; it is grouped together in what is actually a military budget and consequently its insertion in the total shown in the Model Statement presents no difficulty from the point of view of supervision.

**(c) National
Defence Expendi-
ture borne
on the Budgets
of the Civil
Ministries.**

Where national defence expenditure is incorporated with civil expenditure in the accounts of ministries or civil services, the proportion of the expenditure which is of military value will be determined by each State on the basis of internal documents which are not published. It will not be possible for the Permanent Disarmament Commission to verify this apportionment by means of the closed accounts. It has been found, however, that in such cases the delegations have furnished definite explanations. The Committee also observed that expenditure of this kind was not very large. Nevertheless, certain special difficulties, which it is advisable to mention, will be encountered in supervising this expenditure.

The Committee decided to exclude, in general, from its list of national defence expenditure all expenditure relating to public works of general utility, the effect of which is to increase the war potential of the country. On the borderline of the expenditure comprised in the conventional list there may sometimes be some doubt from the point of view of supervision as to the accuracy of the figures entered in the statements. Thus it will sometimes be difficult to ascertain whether a road leading to a training camp or aerodrome, the establishment of a fuel-oil tank, the construction of an electric power system or an aqueduct or dredging operations in certain ports are or are not of specific military value. Whether the corresponding expenditure is included in the military budgets or in the civil budgets, it will be difficult for the Permanent Disarmament Commission to determine the exact nature of such works.

With a view to mobilisation, the State may also acquire in peace-time stocks of imported raw materials. The expenditure in respect of the acquisition of stocks of this kind can easily be supervised if it is charged to the national defence budgets, but if it is included in the accounts of civil ministries it may be somewhat difficult to verify, especially if the description of the expenditure is not sufficiently clear.

The Committee found, further, that the civil budgets of nearly all Powers include heads under which the expenditure on the military training of young men is more or less definitely isolated. The cost of this instruction may, however, be defrayed in part out of credits assigned to public education and, on this account, supervision may be somewhat difficult.

Mixed services. Certain mixed services enumerated above—such as cartographic, geographical and geodetic services—appear in the budgets of the civil ministries. States will include in the Model Statement the proportion of the expenditure on those services which is of military value, and the Permanent

Disarmament Commission will not in every case possess the data necessary to enable it to ascertain whether all this expenditure has been apportioned correctly.

Supervision of the apportionment of mixed expenditure shown in accounts other than those of the national defence ministries would be facilitated if States agreed to group this expenditure under separate heads. The Permanent Commission, in exercising its supervisory powers, should endeavour to induce them to do so.

(d) National Defence Expenditure entered in Special Accounts. Supervision over the national defence expenditure entered in the special accounts does not present any special difficulty. The chief feature of these special funds is that receipts are assigned to a definite object, and this is usually very clearly indicated. There are, however, cases in which expenditure under special accounts is not presented with sufficient clearness. In such cases, the States concerned should undertake to indicate the necessary particulars, and it is to be hoped that the Permanent Supervisory Commission will either induce them to present these accounts in a clearer form or to do away with them altogether. Supervision will be all the more effective if the principle of budgetary unity is respected.

C. NATIONAL DEFENCE EXPENDITURE BORNE BY REGIONAL OR LOCAL COLLECTIVE ENTITIES OR BY PRIVATE ASSOCIATIONS OR PERSONS.

(a) Expenditure borne by the Colonies. Certain colonies bear the whole or part of the expenditure relating to the security of their territory. Thus Belgium, the United Kingdom, France and Italy charge a certain proportion of expenditure (from 1.6 to 7.5 per cent of the total national defence expenditure) to the colonial budgets. The supervision of this expenditure should not give rise to any serious difficulty. The most typical case is that of the Netherlands. The national defence expenditure on the budget of the Dutch Indies amounts to 62.2 per cent of the total national defence expenditure of the Netherlands. In this latter case, the military expenditure borne on the budget of the colony is shown under separate items in the same way as the national defence expenditure included in the budget of the home country, and the supervision of the transfer of figures to the Model Statement does not present any special difficulty.

(b) Expenditure borne by Regional or Local Collective Entities of the Home Country. As regards expenditure borne on the budgets of the federated States of a confederation, the Committee observed that the closed accounts of these collective entities contain sufficient details, are subject to supervision by means of which the authenticity of the figures included therein is established and that supervision will thus be possible.

As regards the expenditure by regional and local collective entities of the home country, supervision will be seriously hampered by the fact that there are always a very large number of these collective entities and it will be really impossible for the Permanent Disarmament Commission to consult their accounts. The Committee considers that this difficulty might be lessened if States undertook to supply, at the Permanent Commission's request, an account, authenticated by the Governments, of payments borne on the budgets of regional and local authorities and certified correct. In special cases, the Permanent Commission might ask for the actual accounts to be communicated to it.

(c) Expenditure met by Associations or Private Persons. We have seen that, in a large number of countries, expenditure out of gifts or bequests made by associations or private individuals for purposes of national defence is explicitly shown in the closed accounts. In other cases, however, no accounts of such gifts or bequests are published. As a rule, if they are of any importance, they are usually attended by publicity which will facilitate supervision. For instance, public subscriptions cannot remain unknown, and gifts made by associations

or companies usually figure in the reports sent to the members of those associations or to the shareholders.

As regards associations considered as formations organised on a military basis, their expenditure cannot be accurately supervised unless they possess accounts which they can submit to the Permanent Disarmament Commission.

D. DIFFICULTIES OF SUPERVISION INHERENT IN CERTAIN SPECIAL FORMS OF PUBLIC ACCOUNTS.

Other difficulties of supervision may arise in connection with certain special forms of public accounts, and these should be taken into consideration.

(a) **Special Funds.** As a general rule, States will have to enter in the statement the actual expenditure out of special funds and not transfers from the budgets to those funds when the latter are partly or wholly provided out of the budgets. The observance of this rule can easily be supervised except in the very rare cases where the accounts of special funds are not public.

The Committee has accordingly made a recommendation to the effect that all States should undertake to publish the accounts of special funds concerning national defence. As regards the lump sums allocated to units to provide for the material requirements of their effectives, the observance of the rule that transfers from the budget to such funds should be entered in the statements can easily be supervised.

(b) **Autonomous Establishments.** The payments made by the ministries of national defence to autonomous establishments in return for the materials supplied can easily be supervised because they are shown in the closed accounts of those ministries. This also applies to payments made by the ministries of national defence to cover the deficits of these establishments and to improve their plant or equipment.

Moreover, as a rule, the accounts of the autonomous establishments themselves give particulars of their receipts and expenditure and enable the insertion in the Model Statement of the relevant national defence expenditure mentioned in the previous chapter to be verified. In order, however, to facilitate the task of the Permanent Disarmament Commission, the Committee recommends that all States which do not publish detailed accounts of such establishments should undertake to do so.

(c) **Subsidies to Private Armament Firms.** The Committee decided to insert in the Model Statement the subsidies granted by the State to private armament firms. If those subsidies are granted to firms which manufacture armaments in peace-time and other materials as well, the State granting a subsidy to such firms will insert in the Model Statement only the portion of the subsidy intended to increase the production of war material. The State concerned will obviously possess the information necessary to enable it to determine this proportion, and will do so on the basis of the actual circumstances, which the Permanent Disarmament Commission cannot appreciate simply by means of written vouchers.

Moreover, subsidies can be granted by various means: if the subsidy is granted direct and charged to a budgetary credit, the expenditure is inserted in the accounts and can be taken into consideration by the Permanent Disarmament Commission. This also applies to cases in which the subsidy is granted in the form of an increased selling price. In such cases, the actual price paid by the State to armaments firms, which includes both the normal selling price and a sum representing the subsidy or grant, is included in the closed accounts.

Subsidies may, however, be granted indirectly through holding companies or banking institutes of which the State possesses the whole or part of the capital. Certainly, in cases of this kind, the State can ascertain the amount of the actual subsidy granted to a private armaments firm through the holding company or the banking institute, but it will not be possible for the Permanent Disarmament Commission to ascertain by means of the closed accounts the exact amount of the subsidy actually received by the private armaments firm. The only method of ascertaining the existence of such subsidies would be to inspect on the spot the balance-sheets and accounts of the private armaments firms. The Committee is not competent to decide whether such supervision is possible. Its advisability might be pointed out to the Committee for the Regulation of the Private and State Manufacture of Arms and Implements of War.

Industrial mobilisation. State expenditure on the installation of plant and the acquisition of raw materials for private firms with a view to a rapid change-over to the manufacture of war material on mobilisation is usually shown separately in the budgetary accounts of the ministries of national defence, but may also appear in other forms in the budgets of the civil ministries. No doubt, wherever such expenditure appears, States are legally bound to insert it in the Model Statements, but it may cause difficulties to the Permanent Disarmament Commission as regards supervision.

(d) **Expenditure out of the Proceeds of Loans.** Budgetary revenue is obtained by means either of taxation or of loans. Expenditure out of loans is usually shown either in the budgetary accounts themselves (extraordinary budgets) or in special accounts. In such cases, there is no difficulty in tracing the annual payments effected from the proceeds of loans. The defence ministries may, however, raise loans and merely insert in their accounts the payments in respect of interest and amortisation of such loans. In such cases, the latter should be excluded and the actual annual expenditure included. Supervision is possible only if the actual expenditure appears in the accounts. The Committee accordingly recommends that States should undertake to show separately in the accounts the annual expenditure and the expenditure on interest and amortisation, so that it may be possible to ascertain that the former has been inserted and the latter excluded.

Again, national defence expenditure—such as the construction of barracks—may be effected by private individuals, a private company or a local collective entity, the expenditure being refunded by the State in a series of annual instalments. In such cases, it will be less easy for the Permanent Commission to supervise the actual expenditure, and States should supply full proof of the correctness of the actual annual expenditure which should alone be inserted in the Statement.

(e) **Gross and Net Accounts.** In examining the documentary material, the Committee found that, despite certain difficulties, it was as a general rule quite possible to reconstitute the amount of gross expenditure. Supervision will in some cases necessitate rather complicated calculations, but the rules laid down by the Committee, in conjunction with the "Instructions" which will subsequently be drawn up, will facilitate supervision by preventing duplication.

The observance of the contractual clause, whereby Governments undertake to account for transfers for a consideration effected between defence services or between Governments on the basis of cost or purchase price with due allowance for depreciation, or, in the case of replenishment of stocks, on the basis of the replacement value of the material transferred, will give rise to difficulties from the point of view of supervision, though in this connection there are certain probabilities which cannot be overlooked. In the case of transfers between ministries, it must first of all be borne in mind that such transfers do not attain large figures, mainly because there are very few articles and in particular very few war

materials which are in common use by the different arms or for the various services, and the practice of joint purchases or joint manufacture is not very general.

The war materials of the different arms are indeed of wholly different types technically and, generally speaking, cannot be manufactured at the same works. As regards guns themselves, the models and calibres used by the land and naval forces respectively possess very different technical characteristics, for the very reason that the objectives (fixed or moving targets) and calibres are widely different. The only war materials which can be used in common by the various forces are portable arms or ammunition. Again, the automatic weapons used by the different forces sometimes have special characteristics (machine-guns with special mountings for use on board ships in the case of the navy, and machine-guns of special models and calibres for use in aircraft).

As regards transfers from Government to Government, the publicity of delivery and consignment recommended by the Committee (see Chapter XVII, page 157) would greatly facilitate supervision of the observance of the rule, set forth above, prescribing how the prices of material transferred must be fixed.

E. CONCLUSION.

By far the largest part of national defence expenditure, within the meaning of the Convention, is shown separately in the accounts of the national defence ministries. A fairly large proportion of this expenditure appearing in the accounts of the other ministries is also shown separately. Thus, the transfer to the Model Statement of the bulk of national defence expenditure can be accurately verified. The difficulties in the way of verification are mainly due to the fact that certain expenditure included in the accounts has to be apportioned on the basis of estimates and of internal documents, and not of published and audited accounts. They are also due in part to certain special features of the published accounts which may render them difficult of interpretation. Having considered, however, the proportion of the expenditure thus affected, the Committee reached the final conclusion that, in spite of the difficulties, the seriousness of which differs considerably in different States, for practical purposes, the application by States of the rules proposed by the Committee for calculating the total national defence expenditure can be checked through the accounts with a high degree of accuracy.¹

¹ NOTE. — Major-General BARBERIS and M. WORBS point out that the margin of error is not always negligible.

Nevertheless, they think that this difficulty is not so serious as *in itself* to preclude the practical possibility of applying the system set forth in the Report of the Committee of Experts on Budgetary Questions.

Part IV.

IS IT POSSIBLE TO SEPARATE FOR PURPOSES OF LIMITATION AND PUBLICITY :

- (a) Expenditure on the Three Forces ?
 - (b) Expenditure on Land and Naval Material ?
 - (c) Expenditure of All Kinds between the Various Headings
of the Model Statement ?
-

INTRODUCTION.

It has been shown in previous chapters, in the light of the documents examined, how far it is possible to ascertain and verify the total amount of the national defence expenditure of the various States.

In this chapter, the possibility of classifying the total expenditure will be examined.

The possibility of making a proper classification of expenditure will be considered from two aspects:

I. From the point of view of the limitation of certain categories of military expenditure (see Articles 10, 24 and 29 of the Draft Convention);

II. From the point of view of publicity (see Articles 33 and 38), which should not only provide for the communication of information regarding military expenditure to the parties concerned, but also furnish useful data for verifying that the limitation figure has not been exceeded.

Chapter IX.

POSSIBILITY OF SEPARATING EXPENDITURE ON THE THREE FORCES.

Conclusions of the Committee of Budgetary Experts. The conclusions of the Committee of Budgetary Experts as contained in their report of 1931 regarding the possibility of separating expenditure on the three forces may be summarised as follows:

- (a) The degree of water-tightness necessary for the separate limitation of the totals of the three forces can be obtained;
- (b) The water-tightness of the expenditure of each of these forces can be ensured by following the instructions with regard to the transfer of the expenditure from the accounts to the Model Statement;
- (c) The percentage of error involved in such transfer would thus be reduced to a small figure.

Examination of these Conclusions by the Technical Committee. In arriving at these conclusions, the Committee of 1931 had not before it documents and evidence furnished by States: it has been the task of the present Committee to examine the above conclusions in the light of the documentary material since submitted.

This material was examined by the Committee from three points of view:

- (i) The extent to which States have shown expenditure on the three forces separately;
- (ii) The difficulties encountered;
- (iii) The methods adopted to meet these difficulties and the extent to which they have proved successful.

I. EXTENT TO WHICH STATES HAVE SHOWN EXPENDITURE ON THE THREE FORCES SEPARATELY.

All States possessing more than one force have rendered a separate Model Statement of expenditure for each. In three cases, however—those of Japan, the United States of America and the Irish Free State—the separation is incomplete, because the expenditure on the Air Forces, though shown separately, is also included in the Model Statement presented for one or both of the other two forces. The explanation of this as given by the delegations concerned is that the Air Force cannot be regarded as anything but integral parts of the Army and the Navy.¹

¹ In a note attached to the Model Statement, the Japanese delegation explained that the figures entered in Table D only represent the expenditure directly affecting the Army and Navy Air Forces and do not include expenditure in respect of administration and training common to both the Army and Navy; the above-mentioned figures are not regarded as showing the full amount of expenditure on the Japanese Air Forces.

The extent to which defence expenditure can be accurately classified into that on each of the different forces varies according to the organisation of the three forces and the degree of independence of their budgets and accounts. Particulars on this point are to be found in the following table:

States with separate Ministries for each force.	States with two Ministries (Army and Navy) for three forces.	States with one Ministry for two or more forces.
United Kingdom. France. Italy.	Denmark. Japan. United States of America.	Belgium. Czechoslovakia. Germany. India. Irish Free State. Netherlands. Norway. Poland. Roumania. Sweden. Switzerland. U.S.S.R. Yugoslavia.

It is obvious that the countries with three separate ministries each with its own expenditure account find the least difficulty in separating expenditure on the different forces. The difficulties increase in inverse ratio to the specialisation of the accounts.

In the case of those countries which do not possess separate ministries for each force, the extent to which separate accounts are kept for the different forces and consequently the extent to which the figures given for each force can be verified vary considerably. At one end of the scale there are such cases as India, Sweden and Switzerland, which, though only possessing one ministry, possess almost completely separate accounts for the different forces; at the other end there is the U.S.S.R., which has one Defence Ministry and only publishes one total figure for the whole of its State defence expenditure.

In their 1931 report, the Budgetary Experts came to the conclusion that the difficulties of classification caused by methods of organisation and accounting could be surmounted if limitation was to be based upon payments, because pay orders show for what purposes the payment has been made. The question at issue, however, is whether payments can be isolated in the accounts. The heart of the problem is the practicability of separating expenditure on the Air Forces, which is often included in the Army and Navy accounts.

2. DIFFICULTIES OF SEPARATING EXPENDITURE BETWEEN THE THREE FORCES.

States with Separate Ministries and Accounts.

Though the existence of separate ministries and accounts tends to ensure the highest degree of accuracy for the figures of expenditure of each force, complete accuracy is vitiated to some extent by certain factors:

- (a) *Coast defence.* This is borne sometimes on the Army account (United Kingdom), sometimes on the Naval account (France), and sometimes on both (Italy).

- (b) *Expenditure by civil ministries on behalf of the Army, Navy and Air Forces.* As a rule, the distribution as between the three forces of the expenditure on posts, telegraphs, public works, etc., is based largely, if not entirely, on estimates of that part of the expenditure included in the accounts of civil ministries which relates to national defence.

States without Separate Ministries and Accounts. The difficulties occasioned by the separation of expenditure as between the three forces in States with separate ministries and accounts also apply to States with less highly specialised accounts, and these latter encounter special difficulties of their own which vary according to the number and nature of their accounts.

The degree of specialisation of accounts differs not only as between different States (the cases of Sweden and the U.S.S.R. have been mentioned above), but also as between the accounts of the same State. Even where a State keeps separate accounts for its Army and Navy and includes its Air expenditure in both, the degree of specialisation of the two accounts may differ. The following may be given as typical examples:

(i) *The Netherlands.* — (a) As regards home expenditure, Air expenditure is included in the Army account and the Navy account; in the former it is largely shown under separate headings, in the latter it is not.

(b) As regards the Colonies, Air expenditure is shown separately to some extent, but not completely, from that on the Army and Navy.

(ii) *United States of America.* — Air expenditure is included in the Army and the Navy account. There are no separate headings for maintenance expenditure in respect of the Air Force (pay, food, etc.).

(iii) *Japan.* — Air expenditure is included in both the Army and Navy accounts; there are a certain number of separate headings in respect of the Air Force, principally relating to war material. The Japanese delegation states that it was not possible to separate its Air Force expenditure from the expenditure on its two other forces, and it was therefore impossible to give even an approximately correct estimate of Air expenditure.

The general consequence of the absence of separate clothing accounts for the three forces is that, in the majority of cases, there are common services, whose cost is shown only in one account. The following examples may be mentioned: expenditure in respect of provisions, pay, equipment and the manufacture and maintenance of certain classes of small arms and ammunition therefor. The relative importance of services common to the Air Forces and to the Land and Naval Forces varies from country to country.

Methods adopted to meet the Difficulties indicated above. In certain cases, no attempt has been made to divide the expenditure on all common services over the three forces. For example, the Model Statement for Air expenditure rendered by Japan includes only those items which the nature of the accounts would permit to be isolated. In certain other cases where the expenditure on common services is relatively inconsiderable, it has not been divided over the three forces, but included in the Model Statement of the force responsible for the administration of the common services—for example, in the U.S.S.R. and Poland. The nature of expenditure on common services is of some importance in any attempt to appreciate the difficulties of dividing it among the three forces. These services usually comprise expenditure on pay and maintenance services. Common headings do not as a rule include expenditure on the upkeep, manufacture or construction of war material, because the technical requirements of each service necessitate to some extent special items in the accounts. The expenditure on war material which is common to the different forces generally represents expenditure on such weapons as rifles, machine-guns ¹ and their

¹ On this subject see also page 83.

corresponding ammunition and gas-masks. But, even in these cases, it is not always possible to isolate the whole expenditure relevant to each force because, as for example in the case of Norway, the same arsenal may manufacture and repair war material for the three forces without any distinction being made in the accounts.

The extent to which war material is separable from other expenditure is dealt with in Chapter XI.

Where, however, States have divided over the three forces expenditure on services common to all three, but borne on the accounts of one only, they have arrived at the figures in three ways:

- (a) By reference to internal cash accounts;
- (b) By the use of administrative information;
- (c) By estimation.

(a) *Internal cash accounts.* The headings of published cash accounts may be less detailed than the corresponding budgets. The particulars shown in the published accounts are naturally not so full as those in the internal accounts, from which they are built up and which are in the possession of the administration. These internal accounts may be of two kinds. They may be:

- (i) Cash accounts actually audited though not published; or
- (ii) Cash accounts unaudited as well as unpublished.

Every State has had recourse in varying degrees to internal accounts of both kinds in its endeavour to divide its total defence expenditure between the Army, the Navy and the Air Force.

(b) *Administrative information.* An example may be taken: the published and audited accounts of a State may only show the total amount expended on the purchase of rifles and this may be the only audited figure known. But from administrative documents and especially by means of audited store accounts, the State will know how many rifles have been issued to the Army, Navy and Air Force, and consequently the allocation of expenditure to these three forces in this respect is exact, though it cannot be made from published accounts.

(c) *Estimation.* The basis of the estimations may be of two kinds: It may be a general appreciation of the facts as known to the administration. An example of this is defence expenditure from special funds and local budgets in the case of the U.S.S.R. It may, however, be based on an existing audited figure. Where, for example, a single audited figure has to be distributed over the three forces, the distribution may be made either:

(i) *In the proportion indicated by the more detailed headings published in the budget.* The figures so arrived at can be explained though they do not necessarily represent the true expenditure of the respective forces.

(ii) *By taking as a basis the number of effectives for the three arms.* This method is used in the case of many services—pay, medical service, provisions, clothing, equipment and ammunition. For example, the whole of the pay and maintenance expenditure of the Land Air Arm of the United States of America is estimated upon this basis. Similar methods are used by other States—*e.g.*, Czechoslovakia, Roumania and Yugoslavia, for calculating expenditure on pay, and by the U.S.S.R. and Yugoslavia for dividing general maintenance expenditure between the three forces.

Though the figures reached by these methods may be approximately correct, they are obviously not susceptible of verification, and they do not represent the actual payments of the respective forces, but only the estimated payments.

**Possibility
of producing
Authenticated
Figures for the
Expenditure on the
Respective Forces.**

The above-mentioned possibilities of error, however, will decrease proportionately as separate and detailed audited accounts exist for each service. The Committee's report must not be taken as implying that separate limitation of the expenditure on the three forces is of itself an insoluble problem. On the contrary, the detailed separate accounts in a number of States (the United Kingdom, France, Italy, Sweden and Switzerland), where the possible margin of error regarding the separation of the expenditure on each of the forces is very small in comparison with the total expenditure, indicate clearly that separate limitation of the actual expenditure on the three forces is *technically* possible.

It is probable, however, that, even with the best will in the world, no State could produce a completely audited figure of expenditure for each force. A certain recourse to estimates would almost certainly be necessary, but this would have to be reduced to a minimum, unless the Disarmament Conference is willing, in the absence of separate accounts for each force, to accept internal accounts or estimates. The most effective way of reducing the risk of error to a minimum is the development of defence accounts in such a way as to show all budgetary expenditure on the Air Force in an account separate from that of the Land and Naval Forces.

As to the nature of such development in the presentation of accounts, it may be observed that the existence of three ministries and accounts does not of itself make the separation of expenditure automatically correct; nor, on the other hand, does the existence of one ministry and one account make the separation of the three forces automatically impossible.

In the first case (as explained above) it may be that what is regarded by one State as Naval expenditure is regarded by others as Military or Air expenditure—*e.g.*, expenditure on coast defence, aircraft carriers, catapults. Difficulties of this nature can be overcome by a greater precision in the definitions to be given in the "Instructions" and by the development of the accounts.

In the second case, a single account, if it possessed extremely detailed items, might well render the separation of expenditure between the three forces as easy in theory as would the existence of actual separate accounts.

**Possible Methods
of separating
Expenditure.**

The Committee has considered whether any other method of separation of Air expenditure could be recommended. The only solution appears to them to be a division of expenditure on the basis of (a) the number of effectives, (b) the relative cost of a soldier, sailor or airman. Both these methods imply the possibility of separating expenditure on war material from that on general expenditure. It is clearly impossible to divide expenditure on war material on the basis of the number of effectives in the three forces. The extent to which expenditure on war material can be isolated is indicated in Chapter X and especially in the diagram on page 97. It will there be seen that expenditure on war material can only be isolated from other expenditure and divided amongst the three forces by a very liberal use of estimates when such expenditure is not entered under separate headings in the audited accounts. The proportion of estimated expenditure as compared with expenditure shown under separate headings in the accounts varies from 2 to 99 per cent according to the country and to the specialisation of its accounts. It is nevertheless true that, as a rule, the need for recourse to estimates is less frequent when separating expenditure on Air material from that on Land material than when separating Air material expenditure from Naval material expenditure.

If, however, expenditure on Land war material could be isolated from other expenditure on such a basis that recourse to estimates would be sufficiently rare to permit of international control, there might be, *prima facie*, a possibility of dividing general

maintenance expenditure on the basis of the number of effectives of each force or of the cost of a soldier, sailor or airman. There are, however, serious difficulties in these two latter methods.

(a) *Distribution of expenditure based on the number of effectives.* This assumes that the cost of soldiers, sailors and airmen is the same in respect of the items concerned. But this is certainly not the case. There is no such thing as a "budgetary soldier" any more than there is an "economic man". A soldier is always a particular sort of soldier — a recruit, fully trained private, corporal, sergeant, etc.; he is at home or abroad; he is single or married; his pay and allowances differ according to rank or grade. The cost of his medical treatment will vary: for example, it may be cheaper in the case of a sailor than in that of a soldier, because the former are more concentrated and fewer doctors are required.

Soldiers, sailors and airmen do not always get the same rations or uniform, and the wear-and-tear of uniform and equipment varies in the different arms. Further, to base expenditure upon the number of effectives involves the verification of the number of effectives, which is not always easy; and, in any case, this method can only be a rough method of dividing a figure for common services between the three forces. This point is emphasised by the Japanese delegation, which stated that it was unable to find any suitable method of separating the expenditure on common services. In its opinion, it would not be proper to divide the expenditure in the ratio of the effectives, because expenditure depends, not merely upon the number of effectives but also upon the nature of the duties which they are called upon to perform.

(b) *Annual cost per man.* The calculation of the "annual cost per man" involves certain difficulties due to the diversity of rank and grades of military and civil personnel and of the regulations governing their employment; and, even if it could be calculated, the result could not be verified. It is true that, for the purposes of rough calculations, administrations are constantly faced with the necessity of having to estimate the cost of a soldier, sailor, or airman of varying categories and ranks. Even if the validity of such a constructive figure were admitted as the juridical basis for limitation, this constructive figure would have to be multiplied by the average number of effectives (of varying ranks and grades) — another constructive figure. The result would be a third constructive figure.

This method would introduce two coefficients of error; the first arising from the calculation of the cost per man, and the second from the calculation of the average number of effectives. It would thus involve so serious a departure from the principle that expenditure means audited payments that it cannot be recommended.

Possibility of Derogations as regards the Particulars to be included in the Tables for the Land, Naval and Air Forces respectively. The Committee has also considered whether, in the absence of complete and detailed separate accounts for the three forces, some latitude might be accorded to States as to what items of expenditure should be included in each of the three tables on two conditions: (i) that the States make it quite clear what derogations from the instructions they have made, and (ii) that the States undertake not to vary these derogations and to adhere each year to the same method of filling in their Model Statements. To permit, however, a State to include under expenditure on the Naval Forces, for example, expenditure which really relates to the Air Force, would militate against the principle, expressed already in the Budgetary Experts' report, that "the expenditure to be entered in the Model Statement shall correspond to the true and final utilisation of the amounts involved". Moreover, to include in the figures for one force maintenance expenditure relating to another force would make

it juridically possible for a State to spend on one force money included in the limitation figure of another, which is one of the very things that separate limitation is designed to prevent.

The only derogation which the Committee envisages is that relating to the *expenditure on coast defence*, which by its nature can be regarded as either Naval or Military or both. So long as States adhere to the same method of showing this expenditure, the fact that it is not shown in the same accounts by all the States concerned does not appear of much importance.

In evaluating the margin of error in any attempt to isolate and verify the expenditure on Air Forces, two factors must be taken into account.

The first is an internal factor—namely, the difficulty experienced by Governments themselves in isolating the expenditure on their Air Forces. As has been demonstrated in the foregoing pages, the difficulties are mainly due to the organisation of the forces, and they are greater in proportion to the closeness of the relations between the Army and the Air Force or between the Navy and the Air Force. The Naval Air Force is more closely linked with the Navy than the Land Air Force is with the Army, and therefore more difficulty has been found in separating the Naval Air Force expenditure from that of the Navy than in separating the Land Air Force expenditure from that of the Army. Thus, the first factor of possible error is due to the actual organisation of the forces, and cannot be evaluated.

The second factor is concerned with accounting, and can be evaluated. In the various closed accounts there are items or groups of items of expenditure which without any doubt concern the Air Forces. In the following table and diagram all the Air Force expenditure, which is taken *en bloc* from the heads of the closed accounts, has been isolated, and, on the other hand, the expenditure which, in order to be extracted from the closed accounts, has had to be split up on the basis of internal documents or estimates, has been set out.

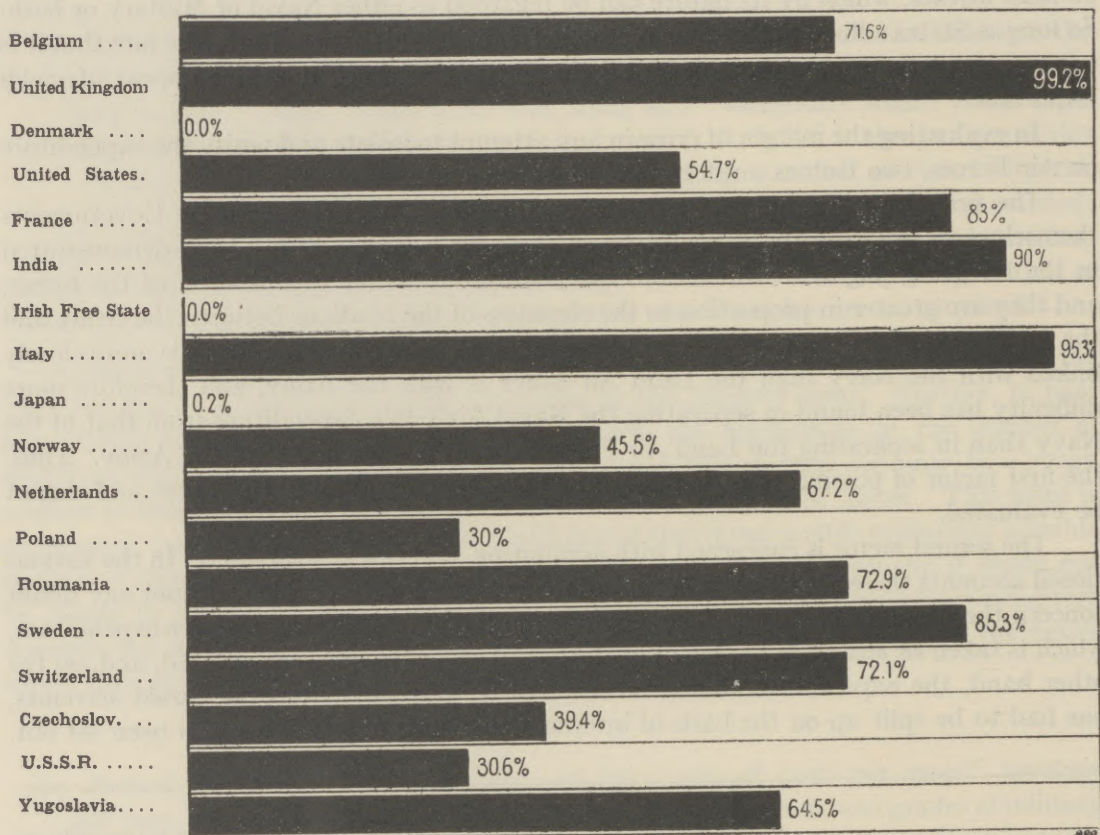
Country	Total expenditure on Air Forces shown in the Model Statement	Amount of Air expenditure shown separately in closed accounts		Amount of Air expenditure not shown separately in closed accounts	
	In thousands	In thousands	Per cent	In thousands	Per cent
Belgium (Belgian francs) . . .	142,214	101,894	71.6	40,320	28.4
United Kingdom (£)	19,277	19,037	99.2	240	0.8
Czechoslovakia (Kč.)	227,999	89,761	39.4	138,138	60.6
Denmark ¹ (Kr.)	2,833	—	—	2,833	100.0
France (francs)	1,979,756	1,645,718	83.0	334,038	17.0
Germany ²	—	—	—	—	—
India (Rupees)	2.58.52	2.23.25	90.0	25.27	10.0
Irish Free State (£) ²	78	—	—	78	100.0
Italy (lire)	946,069	901,469	95.3	44,600	4.7
Japan (Yen) ³	58,318	130	0.2	58,188	99.8
Netherlands (florins)	12,762	8,581	67.2	4,181	32.8
Norway (Kr.)	2,302	1,047	45.5	1,255	54.5
Poland (Zloty)	70,847	21,736	30.0	49,111	70.0
Roumania (Lei)	867,683	632,789	72.9	234,894	27.1
Sweden (Kr.)	9,615	8,203	85.3	1,412	14.7
Switzerland (francs)	6,865	4,949	72.1	1,916	27.9
U.S.S.R. (roubles)	124,572	38,104	30.6	86,468	69.4
United States (\$)	109,066	59,678	54.7	49,388	45.3
Yugoslavia (dinars)	303,584	195,742	64.5	107,842	35.5

¹ Split based entirely on estimates.

² No Air Forces.

³ See note, page 85.

PERCENTAGE OF AIR FORCE EXPENDITURE SHOWN IN SEPARATE ITEMS
IN THE CLOSED ACCOUNTS.



This diagram can only be interpreted in the light of the observations above.

The table itself and the diagram show the percentages of the two groups of figures.

The first and most important remark to be made is that there is an obvious disproportion in the percentages of the figures of the different Powers; in some cases the figures are almost entirely estimates (Irish Free State, Denmark), while in others they are almost all extracted *en bloc* from the accounts (United Kingdom, Italy), and therefore can be accurately verified. Taking them as a whole, the arithmetical mean of the percentages of figures directly verifiable is only 63.

The percentage, however, of Air Force expenditure that appears together with other expenditure in the closed accounts does not in itself represent the margin of error that may occur from the isolation of the actual figures. It is merely a rough *index* of that margin.

Of the figures that do not appear separately in the closed accounts, some are the result of splits in which the margin of error is almost negligible, whereas for others it is much greater, especially where several estimates have had to be made in order to determine them.

Generally speaking, in the index that represents the percentage of unverifiable expenditure in the closed accounts there are two different factors: one that tends to increase the value of the index and lessen the margin of error, and one that acts in the opposite direction.

The first is the fact that a split does not always necessarily involve a high possibility of error: sometimes, indeed, the margin of error may be quite small even if the figure, though made up of unverifiable elements, which has been added to the figures in the fifth column of the table, is fairly high.¹

¹ The Model Statement for the Air Forces of France shows for Chapter 15—Air Force Establishments—Civilian staff—Salaries—the sum of 61,076,975.52 francs. This figure does not appear in the Air Ministry's statement of payments, which gives only 60,880,975.52 francs, while another 196,000 francs were paid by the Ministry of Marine.

Again, in the Japanese Model Statement, for Chapter 1 of Head II of the Accounts—Cost of reform of Air Forces—out of a total of 552,625 Yen, only 531,557 are assigned to Sub-head M—Air Force material—and it has therefore not been possible to regard Chapter 1 as coming directly into the third column of the table.

In both these cases, of course, the margin of error can only be extremely small. Naturally, only extreme cases have been given here as examples; they must not be regarded as typical.

The second factor is the fact that the table is based exclusively on the figures given in the Model Statement as submitted to the Conference, whereas the examination of the documents supplied has shown that in several cases expenditure shared by the Air Force and the Army or by the Air Force and the Navy has not been split up.¹

As has been observed, these two phenomena act in opposite directions; to a certain extent they cancel out, and they make the impression gained from the figures shown in the table more in conformity with the facts.

It is clear from what has been said that, if expenditure is to be defined as *audited payments*, it is not possible for all States at the moment to divide their defence expenditure between the various forces. The organisation of the forces themselves, the corresponding organisation of the accounts, the absence of sufficient detail in the latter, and the existence of common services, make the production of an audited expenditure figure for each of the forces impossible. However accurate the total expenditure on the three forces may be, recourse to administrative information and to estimation in order to divide this total necessarily introduces margins of error which it is impossible to eliminate. Estimates are always to some extent arbitrary, while the figures resulting from separation on the basis of internal documents may be perfectly correct but cannot be completely checked by an international body.

The Committee sees no alternative to the establishment by all States of separate accounts for the three forces, if the Convention is to provide for the separate limitation of expenditure on the three forces based on audited accounts.

It wishes to point out, however, that some delegations, in the course of the examination of their evidence, stated that their Governments would be prepared under certain conditions to consider the possibility of improving their accounts in accordance with the principles which might be laid down in a limitation Convention.

The Committee realises that the submission of separate accounts for the three forces by Governments that do not already make this distinction presupposes organic reforms and that some additional expenditure may be involved. In fact, this has been emphasised by more than one delegation in giving evidence.

Conclusions. (a) If the Conference decides that separation of the expenditure on the three forces must be verifiable on the basis of figures taken *en bloc*, to a very large extent, from the audited accounts, not all countries can carry out this separation owing to the form in which their accounts are at present drawn up.

(b) This separation, however, is not in itself impossible provided that countries which do not submit separate accounts for the expenditure on each force agree to employ such accounts, as is done at present by the United Kingdom, France, Italy and Sweden (all three forces), Germany (the Army and Navy) and Switzerland (the Land and the Air Forces).

(c) Only if the Conference agrees to accept for the separation of the expenditure on the three forces a degree of verifiability considerably inferior to that which can be secured as regards the verification of the aggregate expenditure of each State, can a separation of the expenditure on the three forces be regarded as possible with a view to the application of Article 29 of the Draft Convention.²

¹ The Air Force Model Statement submitted by Japan is a typical case. It shows only the direct expenditure on the Army and Naval Air Forces, and not the administrative and training expenses of the Air Forces common to the Army and Navy.

² **NOTA.** — Major-General BARBERIS and M. WORBS observe that, from the technical point of view, it cannot for a moment be supposed that the Conference desires that such a separation (for the purposes of limitation) should be carried out on the basis of unaudited figures, and agree with the majority in saying that such a separation with audited figures is at present *impossible*.

Chapter X.

POSSIBILITY OF SEPARATING EXPENDITURE ON MATERIAL FOR THE LAND AND SEA FORCES.

(ARTICLES 10 AND 24 OF THE DRAFT CONVENTION).

1. Definition of Expenditure on Land and Naval War Material.

The limitation of expenditure on land and naval war material contemplated by Articles 10 and 24 of the Draft Convention requires as its conditions that expenditure on war material can be separated from other expenditure and that the expenditure on land war material and naval war material can be separated from that on air war material.

In order to determine whether separation of expenditure on war material is possible, it is first necessary to define "war material". The articles of the Draft Convention referred to do not give any definition, and the definition upon which States have worked is that represented by the categories of expenditure allotted to Head IV in the "Instructions" for filling in the Model Statement appended to the Budgetary Experts' report.¹ The Committee accordingly worked on the basis that by war material is meant the expenditure relating to these categories. The Committee have carried out a revision of these categories, as explained in Chapter II of this report.

2. Possibility of separating Expenditure on Material of Each of the Three Forces.

The Budgetary Experts, in their report, made the general observation that, if there was any doubt as regards the possibility of a separate limitation of the total land, total naval and total air expenditure, there must also be doubts with regard to the possibility of separating the expenditure on war material included in those totals.

The difficulties of separating the total expenditure on the three forces have been indicated above; but they are not necessarily and of themselves fatal to the separation of the expenditure on war material for the three forces, for the reason that the difficulties of separating expenditure as between the three forces as a whole arise largely from the existence of services common to all three forces, but entered in the accounts of one of those forces.

In the case of expenditure on war material, of course, the common services are either fewer or do not exist at all.² Even in those States where air expenditure is included in the Army and Navy accounts, it is theoretically possible that the items relating to expenditure on war material of the three forces can be shown separately. The evidence and the documents examined, however, indicate that the degree to which this specialisation of expenditure is carried out in accounts varies very widely.

For example, in the cases of the Netherlands, Norway and the United States of America, where air expenditure is included in both the Army and Navy accounts, the "war material" expenditure relating to Air is shown in greater detail in the Army account than in the Navy account. In the Netherlands, the State naval factories work for both the Navy and Air, and

¹ See report of the Committee of Experts on Budgetary Questions, page 29.

² See page 83.

the separation of expenditure has been effected by calculation. In Norway, the accounting system does not permit of an exact division of expenditure between the three forces as regards arms and ammunition. Similarly, in Belgium, the distribution of the expenditure on arms and ammunition between the Army and Air Force has been carried out by estimation on the basis of the respective number of effectives. In the cases of Czechoslovakia and Poland, the published accounts show little detail and, in order to separate war material expenditure, recourse has been had to internal accounts.

3. Special Difficulties arising out of the Definition of Expenditure on War Material. Moreover, apart from the difficulties consequent upon the problem of separating the total expenditure for the three forces, there are special difficulties arising out of the definition of "expenditure on war material" (Head IV) as given in the Budgetary Experts' report (pages 29 *et seq.*).

What Head IV sets out to ascertain is in effect the full payments in a year relevant to the manufacture, acquisition and upkeep of implements of war.

It does not aim at ascertaining the "cost" of such implements in the technical sense of the word—*i.e.*, the sum of the items which go to make up the cost of production of the finished materials.¹

4. Inclusion of All Relevant Items. Expenditure on war material is broadly of four kinds:

(a) War material may be purchased either from a private firm at home or abroad or from a State autonomous establishment (*i.e.*, a Government establishment which conducts its business on commercial lines and sells its products to defence departments).

(b) War material may be manufactured or repaired in non-autonomous State establishments (*i.e.*, establishments where expenditure on material, wages, plant, etc., is entered direct in the budget accounts, and to which no price is paid direct by the defence ministries in respect of material acquired from them).

(c) Small repairs to war material are sometimes carried out in the military units themselves by the personnel of those units. This is particularly true of repairs to warships, mechanical transport and aeroplanes.

(d) Expenditure on research, technical experiments and the inspection of materials.

(a) In the first case, the price paid by the defence ministries for deliveries represents the total cost of the finished material. If the material is bought from a private undertaking, the purchase price includes, in addition to the cost of production, the purveyor's profit. If the material is delivered by an autonomous establishment, the price of delivery to the defence ministries does not always include expenditure such as depreciation of plant and buildings, taxation, etc.

(b) In the second case, the structure of the accounts being radically different from that of the Model Statement, difficulty is found in isolating from certain general items of the account that part which relates to the manufacture and repair of war material, and in particular to the pay of the military and civilian personnel of establishments which are paid out of the same budgetary items as other personnel, to certain general charges, etc.

(c) In the third case, it must be remarked that the repairs undertaken in the units themselves are necessarily of a lighter nature than those effected in the workshops or in the depots. The units do not as a rule incur any expenditure as regards the articles, tools and materials necessary for maintenance, as these are supplied from store; the expenditure on the acquisition of these articles and materials is included in Head IV together with the expenditure of the workshops and depots for war material.

¹ See page 113.

Consequently, the only expenditure in this category which is not automatically entered in Head IV is that relating to labour utilised in the units for minor repairs and, to a small extent, that relating to overhead charges. This is, moreover, a phenomenon found in all countries, and in that respect it may perhaps be disregarded as an element tending to prejudice the watertightness of Head IV. At the same time, it must be observed that, in a technical service, a primary function of the personnel must be the maintenance of its technical material. In an Air Force squadron, for example, its military personnel is normally engaged on the maintenance of aircraft and ancillary armament. It is impossible therefore to calculate the fraction of the daily work represented by upkeep of war material, and it is partly for this reason that the United Kingdom, for example, has been unable to include in Head IV the expenditure on personnel of all kinds engaged on the repair and maintenance of air war material.

The importance of repairs of material effected by the personnel of combatant units may become more and more considerable as the mechanisation of armies increases. Thus the mobile repair units or the workshops on large naval vessels are assuming more and more importance. The isolation of the pay and maintenance items relevant to this personnel would be a matter of serious difficulty, and the Committee does not propose that such expenditure should be included in Head IV.

(d) Expenditure on research, experiment, inspection and tests is generally incurred by central services and covers both material acquired and that repaired by private firms and autonomous and non-autonomous establishments. This expenditure is included in the State accounts. The various items relating to this category of expenditure, however, are not always shown separately in the accounts of each of the forces, and difficulty may be found in isolating from the general items the relevant expenditure on personnel and overhead charges which relates to Head IV of each of the forces.

It is clear that the structure of Head IV and the definition of expenditure on material given in the instructions appended to the report of the Budgetary Experts involve the identification and transfer to Head IV of certain expenditure for upkeep, manufacture and construction of war material, which might otherwise appear in other items of the Model Statement.

The extent to which States have succeeded in isolating all the relevant expenditure and charging it to Head IV varies according to the nature and detail of the accounts kept. As will be seen by reference to the summaries of evidence reproduced in Volume II of this report, difficulties have been encountered in varying degrees by all States without exception. In certain cases expenditure on personnel and overhead charges has been entirely or partially omitted; in others this expenditure has been computed or estimated either from items in the general account or from private accounts on the basis of administrative information.

The difficulties need not be particularised here; they are all of a technical accounting nature and arise from the fact that the structure of the accounts differs from the structure of Head IV. They have been met so far as possible by recourse to internal information of the same kind as that used to separate expenditure on the three forces and described in Chapter IX.

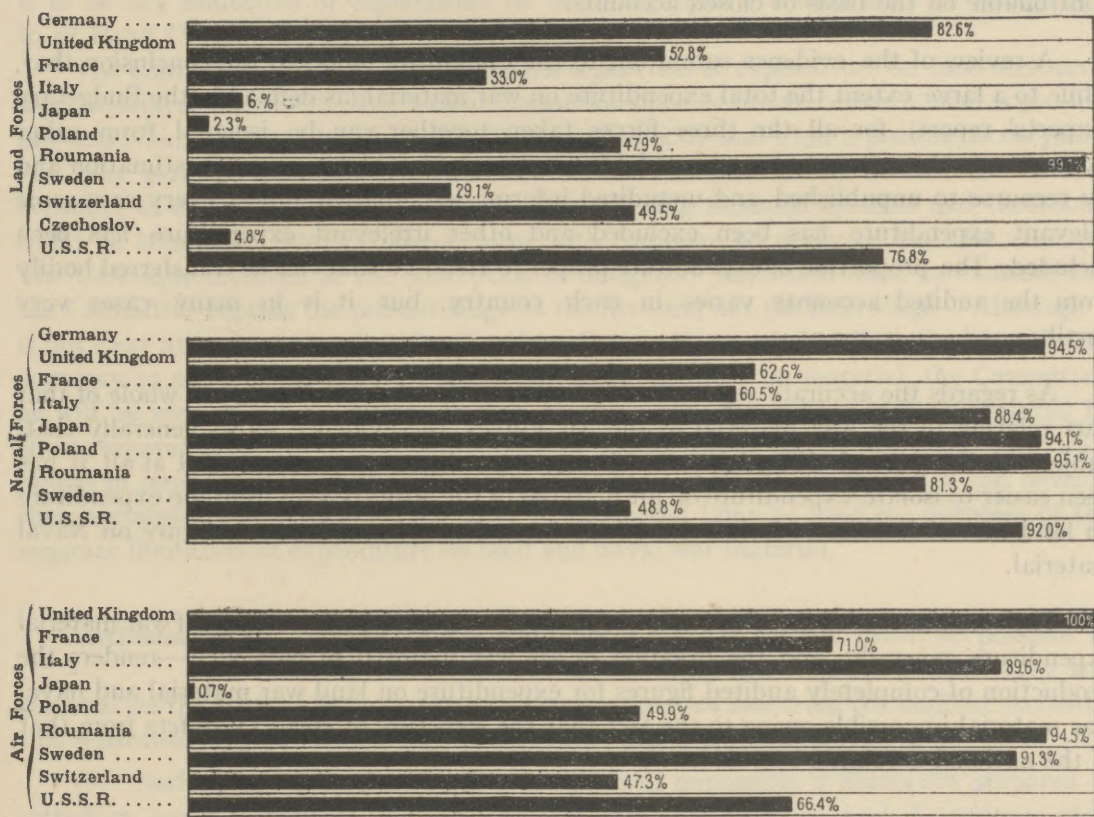
5. Exclusion of Irrelevant Expenditure.

Owing to the fact that in some States there are manufacturing establishments which are at the same time depôts and are engaged in the manufacture and upkeep of both war and other material, it has been impossible to separate the expenditure relating solely to the former. The result is that in some cases Head IV is inflated by the inclusion of expenditure on material other than war material. Examples may be found in the Model Statements of Belgium, the United Kingdom, the United States of America, and Yugoslavia.

6. Degree of "Controllability" of the Expenditure under Head IV.

The object of the diagram given below is to show the degree of "controllability" of the expenditure under Head IV. The diagram and the basic tables attached have been based on the same criteria as the diagram and table on pages 91 and 92 (Annex 7).

PERCENTAGE OF HEAD IV EXPENDITURE SHOWN IN SEPARATE ITEMS IN THE CLOSED ACCOUNTS.



This diagram can only be interpreted in the light of the observations below.

If it is desired to ascertain the degree of controllability of the figures under Head IV, recourse must be had to the accounts, which alone are capable of giving a correct view of the facts.

The annexed table is divided into two parts. In the first part, the totals of Head IV of each of the three forces are shown in aggregate figures and in percentages, while in the second part are shown also in aggregate figures and in percentages:

- The total of the items of the closed accounts relating to Head IV;
- The total of the amounts of the items of the accounts transferred *en bloc* to Head IV;
- To total of the amounts of the items of the closed accounts transferred to Head IV, but which it was necessary to split up;
- The difference between the total of the items relating to Head IV and the total of the parts of those items which have been transferred to Head IV: this difference shows the amounts of the items partially relating to Head IV which have not been included under that head.

In order to understand the data contained in the table and to form an idea of the degree of controllability of the figures, it must be remembered that, as in the case of the table on page 91, two different factors influence the accuracy of the figures in opposite directions.

The first factor is that several States, while isolating the expenditure under Head IV, have omitted expenditure which has been loosely included under other heads of the Statement.¹

On the other hand, the manner in which the "split" has been effected sometimes involves difficulties of distribution which are negligible: for instance, when 100 millions is entered as 99 millions

¹ Sub-Head IV of the Air Forces of the United Kingdom does not indicate the expenditure relating to military and civilian personnel employed for the repair and upkeep of war material or the Air Force quota of the general costs of administration. Consequently, to the £8,055,936 shown in the Model Statement under Head IV of the Air Forces should be added a sum which cannot be expressed in figures.

in Head IV and 1 million under other heads, the error is obviously very slight, although, owing to the split, the item is regarded from a statistical point of view as non-controllable by means of the closed accounts.¹ Generally speaking, the two categories of factors act in opposite directions and the data contained in the table may be said to furnish an approximate *index* of the degree of controllability of the figures in Head IV.

Account must also be taken of the fact that certain apportionments are effected on the basis of internal documents, which allow of exact calculations, although not controllable on the basis of closed accounts.

A review of the evidence submitted to the Committee points to the conclusion that, while to a large extent the total expenditure on war material (as defined in the Budgetary Experts' report) for all the three forces taken together can be isolated from other expenditure, this can only be achieved by a very considerable measure of estimation and by recourse to unpublished and unaudited information; that in almost every case some relevant expenditure has been excluded and other irrelevant expenditure has been included. The proportion of expenditure proper to Head IV that can be transferred bodily from the audited accounts varies in each country, but it is in many cases very small.

As regards the accurate separation from war material expenditure as a whole of that part relating to the war material of the Air Forces, the evidence shows generally that, subject to the general difficulties of isolating expenditure on war material at all, it has been easier to isolate expenditure on air material of the Military arm from the expenditure on land material, than to isolate Naval air expenditure from the expenditure on Naval material.

The combination of these two sets of difficulties—namely, the isolation of war material expenditure generally, and the isolation of air war material in particular—renders the production of completely audited figures for expenditure on land war material and naval war material impossible owing to the fact that the structure of Head IV differs from that of the national accounts.

7. Possible Solutions.

Can any solution be suggested ?

If expenditure subject to juridical limitation is understood to mean in principle "audited payments", the figures for expenditure under Head IV must be of that nature. Now the structure of the existing Head IV necessitates the inclusion of large amounts that, in the present state of national accounting, simply cannot be verified and audited (in particular, expenditure on civil personnel, and overhead charges). This suggests that, by simplifying Head IV (*i.e.*, by eliminating from Head IV all general expenditure), it might be possible to render Head IV expenditure more amenable to verification and control. The Committee has examined certain alternatives to the existing form, in particular a proposal to confine the expenditure in Head IV to certain limited categories of material. The Committee of Experts on Budgetary Questions had considered similar alternatives and had found them unworkable, and the technical Committee, after reconsidering them, has come to the same conclusion.

¹ As regards Chapter 29 of the French Naval Budget (Naval Artillery), of a total of 44,343,544 francs appearing in the statement of payments, only 2,948 francs have been excluded from Head IV.

Similarly, in Chapter 42 (Artillery Establishments), the figure for material—235,833,761 francs—could not be included *en bloc* in Head IV, as that sum includes 1,500,000 francs which had to be entered in Sub-Head G of the Model Statement as it relates to expenditure on lorry transport.

As regards Chapter XVII of the French War Budget (Infantry Pay), of a total of 441,976,514 francs only 5,547,493 francs have been shown under Head IV.

Naturally, in all these cases, although the real figures cannot be verified in a statistical sense, the degree of accuracy of the figures under Head IV is certainly greater than would appear from a simple reading of the table.

The main difficulty of Head IV—that is, the isolation of all expenditure relating to manufacture, upkeep and repair of war material in non-autonomous establishments—could only be solved if States would show all such expenditure in a separate section of their budgets and accounts: that is, if they would include in such a separate section all expenditure on personnel, and raw material and overhead charges relevant to Head IV.

The general conclusion may be drawn that, if expenditure is to be understood as audited payments, Head IV cannot be reorganised to fit State accounts, and if there is to be any limitation of expenditure on material, State accounts must be reorganised to fit Head IV.

The Committee by no means regards the separation of expenditure on land and naval war material as impossible. But a clear distinction must be drawn between what is possible *now* and is satisfactory from the point of view of publicity and what is possible *in the future* and may permit of limitation. It would be unreasonable to expect that the defence accounts of sixty different States, with their differing financial systems and traditions, could be translated into a common form with complete accuracy at the first attempt. The technique involved in the conception of budgetary limitation must be evolved, and the Committee regards the present stage as the first and not the final stage. Although it is not clear at present that the classification of expenditure can be effected with sufficient accuracy to allow of the separate limitation of expenditure on material, the Committee, as will be seen in the following Chapter, recommends that expenditure on material be shown separately, in the interests of publicity. The necessity for the provision of accurate figures in some detail for publicity will induce States gradually to rearrange and develop their accounts in such a way that these figures could later be used for purposes of the separate limitation of expenditure on land and naval war material.

Conclusions.

(a) If the Conference decides that it must be possible to verify the separation of the expenditure on Army and Navy war material on the basis of figures taken to a large extent *en bloc* from the audited accounts, this separation cannot be effected with accounts presented as they now are.

(b) Such a separation, however, is not in itself impossible if States are prepared to introduce separate budgets and accounts for the several forces, and if countries with non-autonomous establishments in which war material is manufactured, constructed or repaired submit their budgets and accounts in the actual form of Head IV of the Model Statement.

(c) The separation of expenditure on Army and Navy material with a view to the application of Articles 10 and 24 of the Draft Convention will only be possible if the Conference is prepared to accept a very much smaller degree of "controllability" than in the case of the verification of the total expenditure of each State.¹

NOTE. — Major-General BARBERIS and M. WORBS desire, on this point, to make the same reservation as that inserted on page 93.

Chapter XI.

CLASSIFICATION OF EXPENDITURE FOR PURPOSES OF PUBLICITY.

(ARTICLES 38 AND 33 OF THE DRAFT CONVENTION.)

A. ARTICLE 38: PUBLICITY OF TOTAL EXPENDITURE.

1. Structure of the Model Statement drawn up by the Committee of Budgetary Experts. The Model Statement, as drawn up by the Budgetary Experts in accordance with the recommendations of the Preparatory Commission, contemplated, for publicity purposes, the presentation of national defence expenditure in far greater detail than is required by the articles of the Draft Convention relating to limitation. It proposed publicity of defence expenditure in the following form:

- (1) A separate table for each of the three forces.
- (2) Each of the tables for the Land Forces and the Air Forces was divided into five columns representing:

Expenditure on the armed forces stationed at home;
Expenditure on the armed forces stationed overseas;
Expenditure on formations organised on a military basis stationed at home;
Expenditure on formations organised on a military basis stationed overseas;
The total for the above forces and formations.

The table for the Navy omitted the columns relating to armed forces stationed overseas and formations organised on a military basis stationed overseas.

Each of these columns had to be filled in with detailed figures under four heads:

- (1) Effectives.
- (2) Transport.
- (3) Buildings.
- (4) War material.

Each of these heads was again subdivided into a number of detailed items. All the columns were optional, with the exception of the last, which showed the total expenditure under each of the items and the general total of those items. To put it shortly, the Model Statement proposed that States should re-group their defence expenditure under 133 items, of which 31 are compulsory and 102 optional. All the States whose documents have been examined have filled in the total column for each arm.¹ Among those States that have oversea possessions, some have filled in the optional columns in the tables for Land or Air Forces and formations organised on a military basis stationed overseas, while others have not done so.

¹ For Japan, the Irish Free State and the United States of America, see page 85.

2. Difficulties encountered by States in filling up the Model Statement. As has already been pointed out (see Chapter IX) the correctness of the figures shown in the Model Statement depends on the extent to which the items in the accounts correspond to the sub-heads of the Model Statement.

It is clear that, if difficulty has been encountered by States in ascertaining the total expenditure of each force, greater difficulties will have been experienced by them in analysing that expenditure in considerable detail. A study of the documents indicates clearly that the greater the detail required from States the less accurate are the figures supplied.

The difficulties which militate against the accuracy of the figures for each of the items are of precisely the same kind as, though greater in degree than, the difficulties met with in the attempt to separate expenditure on the three forces and on war material. They are broadly of two kinds:

- (1) Difficulties due to the interpretation of the Experts' instructions;
- (2) Difficulties due to the difference between the form of the existing accounts and the form of the Model Statement.

The former are of relatively minor importance but of very varied character. It appears to be unnecessary to particularise them here; they can be ascertained by reference to Chapter D of the summaries of evidence annexed to the report. It may be said generally that, for the most part, difficulties of classification due to the interpretation of the "Instructions" for filling in the Model Statement can be met by a careful revision of those "Instructions". Such difficulties should gradually disappear in course of time.

Difficulties of the second character—that is to say, difficulties due to the difference between the form of the accounts and the form of the Model Statement—are more serious. In relatively few cases do the items in the published expenditure accounts correspond to the items of the Model Statement. In many cases, expenditure shown under a single item of the accounts has had to be distributed over two or more items of the Model Statement. The methods adopted to effect this distribution are the same as those described in Chapter IX, above—that is to say, the figures have been distributed by reference to internal accounts and administrative information, and by estimation.

Recourse to these methods generally introduces an element of error into almost every sub-head of the Model Statement. These errors, of course, have little or no effect on the correctness of the total of expenditure of the three forces taken together. They arise solely from an attempt to distribute a correct total over items which do not correspond to those in the accounts. Here, again, it is not necessary to particularise all the difficulties met with. They can be ascertained by reference to Chapter D of the summaries attached to the report.

3. Special Difficulties. Certain difficulties more generally experienced may, however, be mentioned here.

Pay of Effectives. — Certain States have found difficulty in separating pay of officers and other ranks and in arriving at the respective proportions of these two kinds of expenditure which should be transferred to Head IV (Expenditure on War Material). For instance, Switzerland has not separated sub-heads A and B in the Model Statement, and the U.S.S.R. stated that it was impossible to split up expenditure on allowances to personnel among sub-heads A, B and C of the Model Statement.

The difficulties of calculating the proportion of the expenditure under these three sub-heads which should be transferred to Head IV varied widely according to the different Powers and were greater in some cases than in others. As a rule, the separation was effected by means of internal accounts and estimations. For instance, Germany did not effect this separation in the case of military personnel, the United States of America did so with great difficulty, Roumania stated that separation was impossible; while the U.S.S.R. did not include this expenditure in the Model Statement, owing to the difficulty of isolating it.



Pay of Civilians. — The "Instructions" in the Experts' report state broadly that the expenditure on civilians should be distributed between sub-head C and Head IV of the Model Statement, with exception, however, of expenditure on workmen, which has to be distributed over the various sub-heads of the Model Statement according to the nature of the work upon which they are employed. Many States have found it difficult to make this distribution and certain States have made no attempt to do so. For instance, Switzerland finds it impossible to separate the portion of expenditure that should be included in Head IV; Norway has not separated expenditure on civilians employed in the dockyards; the United States of America have not shown any expenditure under sub-head C of the Model Statement and all expenditure on civil personnel has been included in sub-heads E, G, K, L and M.

Maintenance of Personnel. — Difficulties have been experienced in isolating that part of this expenditure which relates to war material and which is to be shown under Head IV. There is also certain expenditure in the nature of maintenance which has been treated differently by the various Powers. For instance, certain States have included allowances in respect of maintenance expenditure in sub-heads A, B, C and D of the Model Statement (Czechoslovakia, Italy, United States of America, Yugoslavia), while other States (Roumania) have included them in the sub-heads relating to maintenance, and others again (France, Norway, Switzerland and the U.S.S.R.) have followed different criteria, according to whether the allowances related to the maintenance, of soldiers (shown under sub-heads A to D) or to the maintenance of horses (shown under sub-head F).

Fuel, Transport and Upkeep of Buildings. — Difficulties have been experienced in isolating that part which relates to the buildings and installations for the manufacture of war material, expenditure on which is to be shown under Head IV.

4. War Material. This head contains three items for the Army and Navy, but one only for the Air.

Head IV for the Army. As regards the land forces, the three sub-heads of Head IV are:

- "Arms, ammunition and fighting material" (sub-head M).
- "Engineer and other warlike stores" (sub-head M (a)).
- "Expenditure not divisible between M and M (a)" (sub-head N).

More than half the States have used sub-head N, some to a much larger extent than others. This indicates their difficulties in filling up sub-heads M and M (a).

Apart from these difficulties and that relating to the inclusion of civilian employees and overheads, to which reference has already been made, no very serious difficulty has been experienced in filling up the sub-heads M and M (a).

Head IV for the Navy. In the case of Head IV for the Navy, the Committee of Budgetary Experts had provided separate sub-heads for the following expenditure:

- "New Construction and Maintenance of Ships" (sub-head L).
- "Arms, Ammunition and Fighting Material" (sub-head M).
- "Expenditure not divisible between L and M" (sub-head N).

Of the fifteen naval Powers examined, only four have availed themselves of sub-head N, and these only to a relatively small extent. But, as regards the distribution of expenditure between "New Construction and Maintenance of Ships" (sub-head L) and "Arms, Ammunition and Fighting Material" (sub-head M), States have experienced very serious difficulties. These difficulties are due partly to differences of interpretation of the instructions of the Experts, but much more to the fact that in certain States from an accounting point of view the term "new construction" of a ship includes arms and ammunition, while in other States new construction excludes these. In view of these objections the Technical Committee contemplated doing away with the sub-heads of Head IV altogether, but after a thorough examination of the question, it recognised

that, from the point of view of publicity, more detailed information than that furnished by a single aggregate figure was highly desirable.

It was found when examining the documentation that there are several naval budgets (Germany, Italy, Japan, United States of America, U.S.S.R.) in which the sub-heads relating to material services do not distinguish between expenditure on naval construction proper and expenditure on artillery arms and ammunition in general.

In order to separate the expenditure on naval material between sub-heads L and M, the amounts must be split up on the basis of computations or internal accounts. The documentation at the Committee's disposal showed that States, when splitting up expenditure in this way, arrived at contradictory results.

In the following table will be found the sums shown by the various Powers for sub-heads L (ships : construction and maintenance) and M (arms and ammunition) of the Model Statement.

(In thousands)				
1 Powers	2 Currency	3 Sub-head L	4 Sub-head M	5 Ratio
Germany	RM.	59,948	29,020	2.06
Canada	\$	1,773	94	18.80
Denmark	Krone	4,137	847	4.90
United States	\$	68,493	101,766	0.67
Finland	Markka	83,053	9,920	8.40
France	Francs	1,229,827	626,112	1.95
India	Rupees	3,139	75	41.50
Italy	Lire	572,644	312,407	1.83
Japan	Yen	121,243	24,175	5.30
Norway	Krone	3,524	902	3.88
Netherlands	Florins	14,309	6,782	2.10
Poland	Zloty	15,875	1,879	8.50
Roumania	Lei	15,138	71,285	0.21
United Kingdom . . .	£	19,327	4,119	4.68
Sweden	Krone	16,259	3,826	4.23
Yugoslavia	Dinars	102,468	17,700	5.97

Apart from certain special cases, in which an examination of the composition of the fleets and of the services which they render explains certain disproportions, the relationship between expenditure on "Vessels" (as defined in the report of the Committee of Experts on Budgetary Questions) and the expenditure on their "Arms and Ammunition" should not vary greatly in Navies which are practically equal in size.

It seems very unlikely that, in Roumania, expenditure on "Arms and Ammunition" is five times as high as the expenditure for "Vessels (Hulls and Engines)" and that, in Poland, on the other hand, the expenditure on "Arms and Ammunition" represents barely one-tenth of the expenditure for "Vessels." It is obvious that these two Powers have interpreted sub-heads L and M quite differently.

The discrepancies are even more striking when one compares the figures given for those sub-heads by the United Kingdom and by the United States of America. The figures supplied by Japan also call for some comment. It should further be noted that the Yugoslav delegation agreed at the oral examination that, if the Committee thought it desirable, 11 million dinars could be transferred from sub-head L to sub-head M, which would change the relationship between the expenditure under those two sub-heads very considerably.

The impression derived from the oral examination of delegations is that the data obtained are somewhat uncertain owing to the fact that the organisation of the various Navies differs considerably especially as regards the powers and duties of the technical General Directorates.

For example, whereas in the French Navy the Directorate-General of Naval Construction is responsible for artillery installations (excluding guns), torpedo tubes, torpedoes and fire control centres, in Italy and the United States of America the administration of such material comes within the powers of the *Direzione Generale delle Armi e Armamenti Navali* and of the *Bureau of Ordnance* respectively. In the United States of America, the powers and duties of the *Bureau of Ordnance* extend to the armour-plating of vessels, which in all other countries comes under naval construction.

In the following table are shown the percentages of figures which can be regarded more or less as verified for sub-heads L and M of the statements of the principal naval Powers. These percentages are particularly low for Powers which have no separate budget for Air. In the case of France, the percentage is fairly low for the simple reason that there has been deducted

in part, on the basis of computations, the expenditure on the hydrographic service and on fisheries supervision, which have been regarded as services of a non-military nature.

Head IV of Naval Forces.

FIGURES WHICH CAN BE VERIFIED IN THE CLOSED ACCOUNTS.

Percentage of Figures taken en bloc from the Audited Accounts
(according to the Model Statements sent to the Conference).

	Monetary Unit	Total Head IV	Sub-head L: "Vessels"— <i>i.e.</i> , Naval construction and engines. Verifiable figures	Sub-head M: "Arms and Ammunition". Verifiable figures	Verifiable total	Verifiable percentage
United Kingdom .	£	23,446,354	10,796,911 ¹	3,370,465 ¹	14,167,376	59.8
France . . .	Francs	1,855,939,647	840,667,553 ²	276,885,653	1,117,553,206	60.4
Germany . .	RM.	88,967,779	59,947,441 ³	29,020,338 ³	88,967,779	100
Italy	Lire	885,051,267	2,735,266 ⁴	42,135,709 ⁴	44,870,975	5.9
Japan . . .	Yen	152,148,322	5,625,217 ⁵	1,884,540 ⁵	7,509,757	4.9
Netherlands .	Florins	21,346,030	4,600,100	2,419,500	7,019,700	32.8
Sweden . . .	Krone	23,264,497	9,699,844 ⁶	2,467	9,702,311	43.0
U.S.S.R. . .	Roubles	25,441,384	0 ⁷	— ⁷	—	0
United States	\$	170,258,554	0 ⁸	0 ⁹	0	0

Average percentage : 34

¹ The sub-head relating to civilian personnel contains part of the expenditure, allocated by the United Kingdom delegation to sub-head C.

² This percentage might have been higher had there not been deducted certain small sums for vessels for the Hydrographic Service and Fisheries Supervision.

³ Head IV did not include the expenditure for officers and technical and administrative officials of the Arsenal, that expenditure having been shown under sub-heads B and C. Further, by mistake, expenditure on artillery and torpedoes for new construction were included under sub-head L. The percentage (100 %) must therefore be rectified.

⁴ In Italy, the sub-heads for new construction include expenditure on naval construction and on artillery.

⁵ In Japan, several sub-heads for naval material include also expenditure for air material.

⁶ Sub-head G.2 of the Swedish Navy, amounting to 9,697,264 Swedish Krone, described as "New Construction", was allocated in its entirety to sub-head L by the Swedish delegation, but it may also include the guns of new vessels.

⁷ The sub-heads for naval material include both material for naval construction and artillery.

⁸ All the figures for sub-head L given in the American Model Statement include also expenditure for Air Forces.

⁹ All the figures in sub-head M include also expenditure for naval construction (*e.g.*, 39,849,956 dollars for "Naval Yards", and 37,022,376 dollars for "Manufacture") and practically all figures also for the Air Forces.

Naturally, if the Powers decided in future to change the structure of their budgets, these percentages might be improved. But there is no hope of obtaining a higher percentage of figures taken *en bloc* from the audited accounts, since the distribution of expenditure between L and M depends largely on the actual organisation of the Navy: one need only consider the various ways in which works and depots are distributed in actual fact as between the Directorates of Naval Construction and Artillery, the differences in the regulations relating to the technical personnel, the traditions of these two services, etc., to realise that any change in the organisation is hardly feasible.

That being so, it is not expedient to insist on a division of Head IV of Naval Forces between sub-heads L and M on the basis of the distinctions proposed by the Committee of Experts on Budgetary Questions.

After careful study, the Technical Committee came to the conclusion that it was desirable to give sub-heads L and M a different significance and to adopt the following classification:

Sub-head L. — New construction (whether relating to the hull and engines—*i.e.*, what is generally understood by the term “ Naval Construction ”—or to arms and ammunition).

Sub-head M. — Maintenance (*id.*, *id.*).

This, moreover, is the subdivision contemplated in Annexed Table B of the Budgetary Experts' report, but only for naval construction properly so called.

The Committee then proceeded to enquire what would be, with this new wording, the resultant percentages of figures taken *en bloc* from the audited accounts which would come under sub-heads L and M.

Head IV of Naval Forces.

FIGURES WHICH CAN BE VERIFIED IN THE CLOSED ACCOUNTS.

Percentages of Figures taken en bloc from the Audited Accounts included in Sub-heads L and M
(according to the Model Statements sent to the Conference).

	Monetary Unit	Total Head IV	Sub-head L: New construction	Sub-head M: Maintenance	Verifiable total	Verifiable percentage
United Kingdom .	£	23,446,354	7,371,061	767,489 ¹	8,138,550	34.8
France . . .	Francs	1,855,939,647	1,017,313,291	13,890 ²	1,017,317,281	54.7
Germany . .	RM.	88,967,779	43,376,823	6,471,145	49,847,968 ³	56
Italy	Lire	885,051,267	563,787,866	72,336,123 ⁴	636,123,989	72.1
Japan . . .	Yen	152,148,322	88,767,620	7,859,878 ⁵	96,627,498	63.5
Netherlands .	Florins	21,346,030	6,960,600	4,714,800	11,675,400	54
Sweden . . .	Krone	23,264,497	10,235,302 ⁶	144,671	10,379,973	44.5
U.S.S.R. . .	Roubles	25,441,384	16,200,953	7,172,118	23,373,071	91.3
United States	\$	170,258,554	0 ⁷	0 ⁷	0 ⁷	0

Average percentage : 52

¹ In the United Kingdom, as in Italy, the sub-heads for pay of workmen are not divided up between “ New Construction ” and “ Maintenance ”.

² See note 2 of preceding table.

³ The reason that this percentage is so low is that the 21,970,895 RM. for the General Administration of the Arsenal, although certainly attributable to a large extent to “ Maintenance ”, may also include general expenditure which might perhaps be accounted for by new construction proceeding at Wilhelmshaven.

⁴ In Italy, the sub-heads for pay of workmen are not divided up between “ New Construction ” and “ Maintenance ”.

⁵ See note 5 of preceding table.

⁶ See note 6 of preceding table: for this second table the figure may be regarded as undoubtedly coming under sub-head L, as now described.

⁷ See notes 8 and 9 of preceding table.

These percentages, although not entirely satisfactory, prove on the whole to be better than those obtained under the former arrangement of Head IV.

In view of the importance of knowing the sum set aside for new construction, the Committee thinks that it would be expedient to adopt for sub-heads L and M of Head IV of Naval Forces the distinction which has been proposed, especially as the subdivision of the totals of Head IV between the two sub-heads L and M would be of interest only for purposes of publicity.

The Technical Committee realises, however, that, even with the new subdivision, States would in some cases find it impossible to produce absolutely accurate figures. The Committee wishes to direct attention to the following point: ammunition for firing practice is to come under “ New Construction ” if it is used immediately, but in reality such ammunition does not increase the value of the material available for combat. It seems preferable, then, to regard it as expenditure to be included under maintenance expenditure. It may happen that expenditure for ammunition for firing practice is shown separately from expenditure on ammunition for vessels of new construction. In that case there is no difficulty in splitting up the expenditure. Occasionally, the expenditure on ammunition for vessels and firing practice is shown under the same sub-head, and it will then have to be allocated under the separate items.

5. Optional Columns. The object of these is to separate expenditure on the formations organised on a military basis from that on the regular forces and to distinguish between expenditure on forces stationed at home and those stationed abroad.

Optional columns relating to the armed forces:
(a) *at home,*
(b) *abroad.*

The difficulties met with in filling up the Model Statement for each of the forces *as a whole* apply equally to the filling up of a Model Statement for *a part* of the expenditure of each force, especially as regards the separation of the expenditure on the Air Force abroad, where Air expenditure is included in the Army and Navy accounts.

The existence of certain common services makes the accurate distribution of Head IV between Home and Colonial defence expenditure difficult, if not impossible. For example, in the case of France, no attempt has been made to divide, between Home and Colonial budgets, expenditure on common services and expenditure on experiment and research. The United Kingdom has not filled in the optional column relating to Land Forces abroad, though it publishes in the accounts a statement of military expenditure in the Colonies; this is partly due to the fact that the statement contains purely estimated figures and excludes certain relevant expenditure incurred at home in respect of the troops abroad. In the case of Belgium, only the figures for total expenditure and expenditure on Head IV are shown for the armed forces stationed overseas.

In view of the fact that Chapter A of the Draft Convention provides for optional tables showing separately the home and overseas forces, it seems desirable to submit similar tables for purposes of publicity of expenditure. Colonial Powers should, indeed, have the right of justifying their relatively greater expenditure on defence by indicating generally the extent to which it is required for Colonial defence. If States wish to show this information, so far as they can, there seems no objection to their doing so, provided that in every case the Model Statements are accompanied by reconciliation tables showing exactly how the figures used have been calculated and what derogations it has been necessary to employ.

Optional column relating to formations organised on a military basis.

In the absence of any indication regarding the definition of formations organised on a military basis, certain States have not inserted any expenditure for such formations in their Model Statements. It seemed, however, expedient to the Committee to retain the optional column relating to that item for formations which will finally be described as formations organised on a military basis.

6. Number of Items of the Model Statement. The Committee of Experts on Budgetary Questions was perfectly aware that there would be difficulties in filling up the Model Statement as drawn up by them, since the diversity of accounts made uniformity of presentation difficult.

These difficulties would naturally be greatly reduced if the number of items in the Model Statement were reduced. To what extent, compatible with the retention of the conception of publicity, could the items be reduced?

For purposes of publicity, defence expenditure might be regarded as falling under three broad headings:

- (1) Maintenance (including transport and quarters) of the Army, Navy and Air Forces;
- (2) Building of fortifications;
- (3) Acquisition, construction and upkeep of war material.

This is the general conception underlying the existing Model Statement; though it particularises the expenditure required for the general maintenance of the Forces under four heads, it includes under "Fortifications" the barracks and other buildings which form

part of the fortifications, while the head for war material is divided in the case of the Army and Navy into three subdivisions.

The reduction of the number of items from twelve to three would make it very considerably easier for States to fill in the Model Statement; but it would by no means avoid some of the chief difficulties, especially those connected with the allocation of relevant expenditure to Head IV. States would still be compelled to have recourse to administrative information and methods of estimation to fill in even these reduced sub-heads. The difficulty must be realised that no Model Statement can be filled up direct from audited accounts. This being so, there is a positive advantage in retaining a considerable degree of detail in it. The fact remains that, in spite of the difficulties, States have largely succeeded in filling up the thirty-one compulsory items of the Model Statement. It is also incontestable that, although the various items of the Model Statement are not to be subject to limitation, they will indicate the general trend of certain categories of expenditure in the various countries and cannot fail to be of real value.

In order to ascertain whether the limitation total has or has not been exceeded, some explanation of the figures contained in it must be possible; and a relatively detailed publicity statement indicating in a summary manner the constitution of its total will provide a useful starting-point for the operations of control. A detailed Model Statement may also be very helpful for the purpose of ascertaining whether all the expenditure enumerated in the conventional list has been included in the total of the Model Statement. Moreover, certain States may possibly welcome the opportunity which a detailed publicity statement will give them of indicating that a large part of their expenditure on personnel (for example, expenditure on pay) is not in every case an index of their military power.

While holding that it is highly desirable at the beginning of a new Convention on publicity of expenditure on armaments not to complicate unnecessarily the work involved by such publicity, the Committee is of opinion that the Model Statement is not too detailed in design and should not prove too complicated in practice. The detail of its headings should be valuable in the future.

The details over which States may perhaps find the greatest trouble, as stated above, are mainly the difficulty of separating the pay of officers, non-commissioned officers, other ranks and civilians, and the expenditure under Head IV.

It is true that to combine the three pay heads (A, B, C) would simplify matters for certain States. At the same time, if there is to be some detailed publicity of expenditure, there are obvious disadvantages in including in one figure the pay of both military and civil personnel. Moreover, so long as these heads are separated, it will be possible to compare from year to year the curve of expenditure on pay and the curve formed by the annual number of effectives. Even though, owing to accounting difficulties, the curve of the former may not be mathematically correct, it should not be misleading if read in the light of the reconciliation table.

As regards Head IV, the Committee, as shown above in Chapter X, could not see its way to adopting a suggestion for the simplification of its content. The general arguments for a fairly detailed publicity statement advanced above as an aid to control apply also to Head IV.

Except for the alteration which has been made in Head IV of the Naval Forces, the Technical Committee accordingly proposes to retain the divisions proposed by the Budgetary Experts.

<p>7. General</p> <p>Considerations</p> <p>regarding</p> <p>Publicity, with</p> <p>Special Reference</p> <p>to the Model</p> <p>Statement.</p>	<p>More carefully drafted instructions, and a growing experience of the international obligations regarding publicity of expenditure, should result in the publicity figures under the various sub-heads of the Model Statement (including Head IV) ultimately reaching a high degree of accuracy and acting as a complementary, though not juridical, check on defence expenditure.</p> <p>The Model Statement, however, could only be used as a complementary check if States explain exactly how the figures inserted under each item have been arrived at. That is to say that a convincing reconciliation table must be provided. The nature of this is dealt with in Chapter XVIII.</p>
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It may, however, be here pointed out that, if a convincing reconciliation table is to be provided, it will be necessary for certain States to publish much more detailed accounts than are published at present. The Committee mentions, as an extreme example, that the U.S.S.R. only publishes one single figure for the whole of the defence expenditure and that consequently all the details in their publicity statement are taken from internal and unpublished accounts. Moreover, the additional details which should be published should correspond as regards their content to the chapters in the Model Statement. The publication of unaudited administrative information is insufficient.

* * *

If the Conference decides to retain a relatively detailed Model Statement for purposes of publicity, the existing rules for filling in the Model Statement given in the Draft Annex to the Convention appended to the Budgetary Experts' report of 1931 will require careful revision. In the absence of a decision in principle, the Committee has not at this stage undertaken such a review.

* * *

8. Conclusions. The Committee desires to add a general observation relating to its proposals for publicity of defence expenditure.

Article 38 of the Draft Convention provides for publicity for national defence expenditure by means of a Model Statement containing a number of detailed sub-heads.

In the light of the material submitted, the Committee considered the possibility of filling in the different sub-heads of the Model Statement and verifying the accuracy of the figures given.

The Committee has already stated its views as to whether it is possible for States to furnish a complete account of their national defence expenditure and for a supervisory body to verify the accuracy of the figure given for the total (Chapters VII and VIII).

The Committee also considered to what extent States have been able to establish figures for the expenditure on each of the forces. It found (Chapter IX) that, owing to the manner in which their accounts are now presented, it was not possible for them to effect this separation on the basis of figures which can be entirely verified.

If this is the case with the total expenditure on the several forces, much greater difficulties will naturally be encountered in filling up a very detailed Model Statement. If it is difficult to verify the figures representing the total expenditure on each force, verification will obviously be much more difficult when the main divisions are further subdivided.

The Committee is, however, in favour of the presentation in a uniform Model Statement, accompanied by all the necessary explanations, of the total national defence expenditure given in some detail, even if the figures for each item are not always absolutely accurate and very considerable difficulty is experienced by an international supervisory body in verifying these detailed figures. Article 8 of the League Covenant provides for the interchange of information concerning national defence, and, in virtue of that article, States have communicated, *inter alia*, certain particulars of their national defence expenditure. In the Committee's opinion, it would be expedient for these particulars to be given in a uniform Model Statement, the grand total of which could be verified to the extent mentioned in Chapter VIII.

It may be added that, should the Conference adopt a system of limitation, publicity by means of a Model Statement would facilitate the solution of problems connected with the supervision of this limitation.

B. ARTICLE 33 OF THE DRAFT CONVENTION: PUBLICITY BY CATEGORIES OF EXPENDITURE ON MATERIAL FOR THE LAND AND SEA FORCES.

1. Object of Article 33. (a) Article 33 of the Draft Convention reads as follows:
" Each of the High Contracting Parties shall, within . . . months from the end of each budgetary year, communicate to the Secretary-General of the League of Nations a statement drawn up in accordance with a standard model showing by categories of materials the total actual expenditure in the course of the said year on the upkeep, purchase and manufacture of war materials of the land and sea armed forces and formations organised on a military basis of such Party."

(b) The Preparatory Commission has appended the following footnote to this draft article:

" 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."

2. Summary of the Work of the Committee of Experts on Budgetary Questions. The Committee of Budgetary Experts had devoted lengthy study to the problem raised by Article 33 of the Draft Convention. The essential considerations set forth in that Committee's report are briefly summarised below:
(a) In some cases, expenditure on the purchase of war material either from private firms or from autonomous establishments is shown under special sub-heads in the accounts, the material being divided into a small number of categories; but even where such sub-heads exist they nearly always include, in addition to purchases of finished material, expenditure on repairs or on the purchase of raw materials and semi-finished products which are used both for repairs and for manufacture.

(b) As regards manufacture in non-autonomous establishments, the Committee noted that in some cases the corresponding expenditure is split up among a fairly large number of sub-heads in the accounts and that only in exceptional cases are such sub-heads or some of them classified according to the categories of weapons manufactured. Certainly, in many countries these manufacturing establishments keep cost accounts (commercial accounts) enabling them to calculate the total cost of each weapon produced, but there is no direct correlation between the cost of the finished material and the figures of the annual budgetary accounts. This is chiefly due to the fact that the manufacture or construction of war material generally requires more than a year.

(c) Lastly, as regards expenditure on the " upkeep " of war material, the Committee not only encountered the difficulties mentioned above, but also found that the definition of the word " upkeep " often varies from one country to another. In some cases it includes repairs and modernisation, which might cumulatively amount to complete transformation of the weapons concerned. Moreover, cost accounts relating to upkeep are often lacking and consequently certain countries are unable to compile an annual statement showing the expenditure on upkeep of war material. For these essential reasons the Committee reached the conclusion that it was impossible for it to recommend any method of detailed publicity by categories of material of the total amount actually expended during a budgetary year on the upkeep, purchase and manufacture of war material of the land and sea armed forces and formations organised on a military basis.

3. Discussion of the Question in the Expenditure Commission. At the thirteenth meeting of the National Defence Expenditure Commission, at which Article 33 was discussed, two proposals concerning it were submitted: a Japanese proposal and one by the U.S.S.R.¹

The Japanese proposal reads as follows:

“ 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 sub-heads L, M, M(a) and N.”

The U.S.S.R. proposal is:

“ (1) Add at the end of the first paragraph of the article the words: ‘ . . . and air ’ ;

“ (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.’ ”

After a very brief discussion the examination of the conditions of application of Article 33 was referred to the Technical Committee together with these two proposals.

4. Examination of the Question by the Technical Committee. Article 33 assumes the possibility of separating the total amounts actually expended on the upkeep, purchase and manufacture of war materials from other national defence expenditure. The idea of the authors of this article was apparently to take “ expenditure on the purchase, upkeep and manufacture of war material ” as meaning the whole expenditure on war material. Head IV of the Model Statement assumes the same possibility. The difficulties encountered in filling in Head IV are of the same nature as those raised by Article 33. The Budgetary Experts report defined what was meant by expenditure on upkeep, purchase and manufacture of war materials. In addition, the Committee had defined on pages 32 and 33 of its report what was meant by “ war material ”, and on page 32 it also gave the following definition of the expenditure on war material which was to be included in Head IV of the Model Statement:

“ Expenses of maintenance, repair, purchase from traders or manufacturers, and of manufacture in State factories (including cost of research and experiment, inspection of materials delivered, and design, and subsidies to manufacturers or other equivalent expenditure) of ships, goods, materials and ammunition, whether complete or in parts intended either for training purposes in peace-time or for the completion or increase of mobilisation stocks and replacements for forces on a war footing, and also the expenses of creation and maintenance (in State or private hands) of stocks and plant, useful only for the manufacture of warlike stores.”

This definition, it is true, explains the purpose but not the actual nature of the expenditure.

What is the meaning, for the purposes of Article 33, of expenditure on war material ?

By expenditure on war material is meant the total actual disbursements charged in one year against the budgetary credits of the said year for the manufacture, purchase, upkeep and repair of implements of war. It does not mean, therefore, the cost of these implements in the technical sense of the word “ cost ”, comprising all the elements of the cost of production of the finished material.

¹ See Minutes of the Expenditure Commission, page 55.

5. Difficulties encountered in isolating Expenditure on Material.

In Chapters IX and X on the classification of expenditure, it has been shown how a study of the documents submitted to the Technical Committee had led to the conclusion that, while the total expenditure on war material (as defined in the Budgetary Experts' report) for the three forces generally can to a large extent be isolated from other expenditure, this can only be done by resorting largely to estimates and unpublished documents.

As regards the possibility of exactly separating the proportion of the expenditure relating to the air forces from the expenditure on war material as a whole, the documentation proved that, subject to the difficulties presented by the separation of the expenditure on war material in general, expenditure relating to air war material had almost always been split very accurately in the case of the material of the Land Air Forces, whose expenditure is included in the accounts of the Ministry of War; greater difficulties have been encountered in separating, in the accounts of the Ministry of Marine, expenditure on Naval air material from expenditure on Naval material.

The combination of the two sets of difficulties mentioned above makes it impossible under the present arrangement of Head IV and of national accounts to give an audited figure for the expenditure on land and sea war material. These conclusions in regard to Head IV apply also to Article 33.

6. Expenditure on Purchase.

Governments obtain war material in two ways: by purchasing them from private concerns and autonomous State establishments, or by having them manufactured in non-autonomous State establishments.

Some countries buy most of their war material from private concerns or autonomous State establishments. It is necessary to ascertain whether it is possible to distinguish expenditure on the purchase of various kinds of war material. As a general rule, the Technical Committee found that, in countries whose documentary material was examined, the budgetary accounts do not allow of the accurate compilation of a statement showing the expenditure on the purchase of the various kinds of war material by categories. In order to identify this expenditure with a view to the application of Article 33, most States would have to make extensive changes in their accounts. The Committee realises the effort on their part which this would involve.

At the same time, in certain countries which buy war material from private concerns or autonomous State establishments, expenditure relating to the repair or manufacture of the material may be combined in the accounts with expenditure on purchase. For instance, the following items are sometimes included in expenditure on purchase: (a) the cost of repairs to weapons carried out by contract with private concerns or autonomous State establishments; (b) purchase of supplies, raw materials, semi-finished parts and spare parts intended for use in the manufacture of complete weapons by non-autonomous State establishments or for the repair of weapons in State factories or in regimental and similar workshops. In both these cases it is very hard to separate the expenditure on purchase by categories of material from that on repairs.

7. Expenditure on Manufacture and Repair in Non-autonomous State Establishments.

As regards the manufacture and repair of war material in certain non-autonomous State establishments, the budgetary accounts of various countries contain the expenditure on raw materials, wages, overhead expenses, etc., but very seldom do they detail the expenditure by categories of war material. Non-autonomous State establishments of some countries keep cost accounts which show the total cost of each weapon manufactured, but these accounts have usually no correlation with the budgetary accounts. The manufacture of war material very often covers periods longer than those during which the annual credits voted can be expended. Consequently, the normal practice is to include in the cost accounts the salaries and wages of more than one financial period, the quantities of raw material purchased out of the credits for previous financial periods, certain amounts

for overhead expenses, some of which at least have no direct relation to the budgetary accounts of any *exercice* whatever, etc.

Certain non-autonomous State establishments sometimes keep operating accounts which show the annual working costs, but do not specify the expenditure according to categories of weapons. In such cases, it is very difficult to separate from the various items which make up the account certain expenditure included in the cost of production, such as the costs of the civilian personnel of the establishments, lighting, water, heating, plant, etc. It was found during the study of the documents submitted that, in some countries, overhead costs were calculated on the basis of the accounts (for instance, in Japan and Belgium), in other countries they had been estimated (for instance, in Norway and Italy), and in other countries again they had been omitted in the case of air war material (for instance, in the United Kingdom).

**8. Repairs in
Units.**

As regards repairs, war material is to a certain extent repaired in the military units themselves by the members of those units.

Although the raw material, ingredients, products or plant needed for these repairs are usually furnished by the administrative services and although there is then no difficulty in entering such expenditure in Head IV, the total cash value of these repairs cannot be determined, as the labour they represent is part of the ordinary day's work of the military personnel employed in repairs.

It must, further, be recognised that it is very difficult to draw a clear line of distinction between manufacture in the strict sense of the term and major repairs or modernisation.

**9. Expenditure
on Upkeep.**

The meaning of the word "upkeep" often varies from one country to another. It is also very difficult to calculate the costs of upkeep for each category of material, especially in countries which have common depots. It is doubtful whether, even with the help of the internal accounts of each country, it would be possible to draw up a correct statement of the annual cost of upkeep for each category of material.

10. Conclusion.

It must therefore be concluded that, in the present state of the budgetary accounts of the majority of countries, it is impossible to publish the exact amount of the expenditure actually effected during budgetary years on the upkeep, repair, purchase and manufacture of war materials by categories for the land and sea armed forces and formations organised on a military basis.

**11. Examination
of the Japanese
Proposal.**

The Japanese proposal is based on the assumption that expenditure on war material can be subdivided according to the individual sub-heads of Head IV of the Model Statement. A study of the documents submitted by various Powers shows that this subdivision is useful for publicity, although it cannot be used for limitation purposes. For publicity purposes only, and subject to the amendment to Head IV of the Naval Forces,¹ these subdivisions may therefore be regarded as the greatest common denominator of the expenditure figures relating to the classes of war material to be derived from the various budgetary accounts under present circumstances, in view of the impossibility of asking the various Powers to make immediate radical changes in their accounting systems. This does not mean that the said subdivisions can be regarded as water-tight compartments (*e.g.*, sub-head L), but this does not in the least detract from the value of the publicity of war material so subdivided.

**12. Examination
of the Soviet
Proposals.**

The Soviet proposal for publicity of the expenditure on air, as well as land and sea, war material would raise, not only the difficulties mentioned in 5 above, but also the difficulties which have just been considered in the preceding paragraphs regarding expenditure on purchase, upkeep, repairs and manufacture. Furthermore, it may be well

¹ See above, page 105.

to point out that this proposal goes outside the scope of the Committee's terms of reference. The Draft Convention provides for direct limitation of air material (Articles 25, 26 and 27), whereas land and sea war material is to be limited indirectly by budgetary methods (Articles 10 and 24).

The problem raised by the Soviet proposal for publicity of the cost of manufactured material cannot be solved with the help of budgets, since the cost of manufactured material cannot be ascertained from budgets and accounts. As regards publicity of quantities expressed in numbers and categories, this problem is outside the scope of the terms of reference of the Committee, which is not qualified to express an opinion on this point.

* * *

The Committee wishes to make it clear that the fact that it is impossible to publish detailed particulars of budgetary expenditure by categories of material does not imply that it is impossible to ascertain the cost price of the finished articles, either through the purchase price or through the cost accounts. The latter, however, are not usually published. In the first instance, indeed, it is a case of ascertaining the annual budgetary expenditure on various categories of material, while, in the second, it is a case of ascertaining the cost price of such material on the completion of manufacture. This question has been raised by another committee; it is not, however, for the Technical Committee to consider how far its conclusions might influence the activities of other organs of the Conference and more especially those of the Committee for the Regulation of Trade in and the Private and State Manufacture of Arms and Implements of War.

Part V.

TECHNICAL RECOMMENDATIONS WITH A VIEW TO LIMITATION

Chapter XII.

INFLUENCE OF FLUCTUATIONS IN THE PURCHASING POWER OF THE VARIOUS CURRENCIES ON THE CONTRAC- TUAL EXPENDITURE LIMITS.

At its meeting on May 26th, 1932, the National Defence Expenditure Commission decided to refer to its Technical Committee the question of the *fluctuations in the purchasing power of the various currencies*.

This question is undoubtedly of great importance from the point of view of the limitation of national defence expenditure. If the value of currency changes, the limit fixed for the national defence expenditure of the respective States will cease to have the same meaning. An increase in the purchasing power of the currency of a given country might enable it to increase its armed strength without any addition to its national defence expenditure. On the other hand, a decrease in purchasing power might make it impossible for the country concerned to keep its armaments at the level to which it will be entitled under the Convention. It thus becomes necessary to devise a practical means of guaranteeing that the limit assigned to each country will continue to represent the same level of armaments.

A. STUDIES OF PREVIOUS PROPOSALS.

The influence of variations in the purchasing power of currencies upon contractual limits was dealt with in comparatively full detail in Chapter 18 of the report by the Committee of Budgetary Experts (document C.182.M.69.1931, pages 17-21).

During the general discussions at the beginning of the Conference, certain delegations emphasised the importance of the question of fluctuations in the purchasing power of the various currencies from the point of view of the regular working of any system of budgetary limitation. In this connection, it may be appropriate to mention a proposal by the Swedish delegation¹ stressing the need for continuing the examination of the budgetary method, more especially with a view to its application in the case of fluctuations in purchasing power. Reference must also be made to the German delegation's general estimate² of the efficacy of the budgetary method in the event of fluctuations in purchasing power.

¹ Document Conf.D.99, page 48.

² Document Conf.D.99, page 32.

The National Defence Expenditure Commission also received certain suggestions from the French delegation, which laid particular emphasis upon the desirability of considering the question of variations in the cost of armaments under two different aspects: (1) the economic, and (2) the administrative. The Swedish delegation, on the other hand, suggested that the percentage proposed by the Experts as a means of ensuring greater elasticity in the average four years' limit¹ might also serve to counteract fluctuations in purchasing power. The same delegation further suggested that it would be desirable to entrust the Permanent Disarmament Commission with the task of operating the mechanism outlined by the Experts for the readjustment of contractual limits.

**(a) Limitation and
Publicity Figures
should be stated
in the National
Currencies.**

It should be stated at the outset that, like its predecessors, the Experts of 1931, the Technical Committee has recognised that both publicity figures and the limits assigned to the various States must be expressed in units of their respective national currencies. It would, indeed, be impossible to fix limits stated in terms of a single monetary unit taken as a common measure. In this connection, it need only be pointed out that the rates of exchange of the various national currencies may vary to a very considerable extent without any corresponding variation in the internal purchasing power of the currencies in question.²

If limitation figures are to be stated in units of the national currency of each country, account must be taken of the fact that the purchasing power of such currencies may vary. The Committee does not, however, think fit to give an exact definition of what is to be understood by "purchasing power". It considers, indeed, that, for the practical ends which it set itself, it is sufficient to state that by "a change in purchasing power" is to be understood in principle a change in the *general level of prices in a given country*. It is clear that, in order to gauge the general level of prices, all their various indices must be used, more especially the wholesale price and cost-of-living indices.

B. ANALYSIS OF THE FACTS.

**(a) Fluctuations in
Purchasing Power
since 1929.**

In order to place on a firm basis the enquiry into methods of permitting readjustments of limitation figures in the event of variations in purchasing power, it appeared necessary to ascertain the extent of the fluctuations which have occurred in the course of recent years both in exchange rates and in internal prices.

To this end, the Committee has had drawn up a series of diagrams (see pages 116-118) and tables (see Annex 8) showing rates of exchange, wholesale prices and the cost of living in various countries in the period 1929-1932.³

The first essential fact brought to light by this statistical material is the considerable fall in prices which occurred in all countries during the period 1929-September 1931.

¹ See Chapter XIII below.

² See, in this connection, the examples quoted in Chapter XXI, paragraph 2.

³ NOTE. — In a letter of March 18th, 1933, to the Bureau of the Technical Committee, the German expert referred to the fact that the Technical Committee decided, at its morning meeting on February 28th, to supplement the study of the fluctuations in purchasing power by means of data relating to the gold-standard countries as from the year 1929.

In order to enlarge the sphere of the rapporteur's studies, the German expert submitted to the Committee material based on investigations of the Reich Statistical Office (*Statistisches Reichsamt*, Berlin) and added conclusions on this special question.

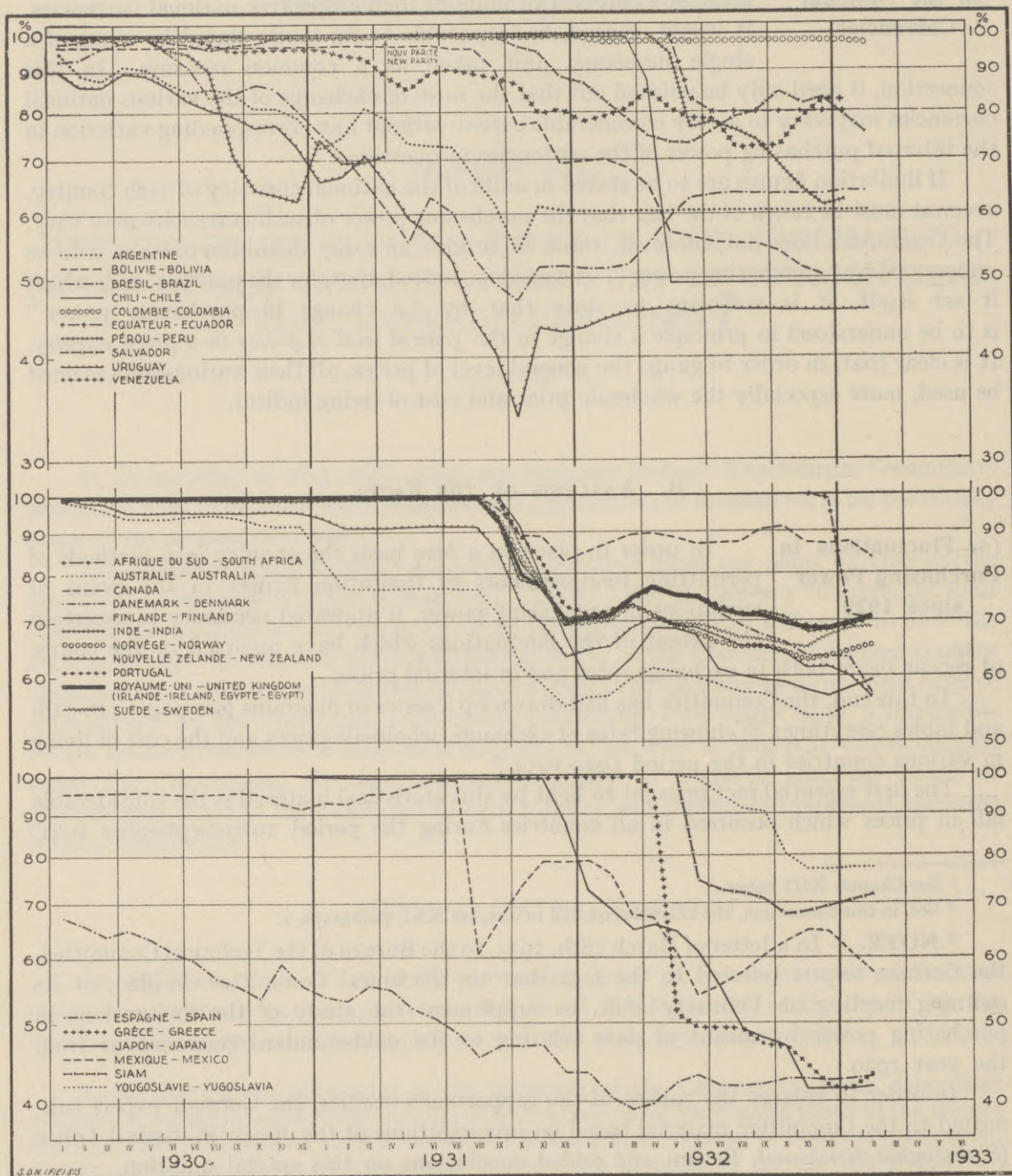
As the Committee, being already in possession of a note by the Financial Section and Economic Intelligence Service of the League of Nations and of graphs prepared by these services, did not think it advisable to insert the said documentation in the report, the German expert was unable to consent that the figures and diagrams, the contents of which had been studied with interest by several members of the Committee, should not be communicated to the readers of the present report.

This documentation has been inserted in Annex 9.

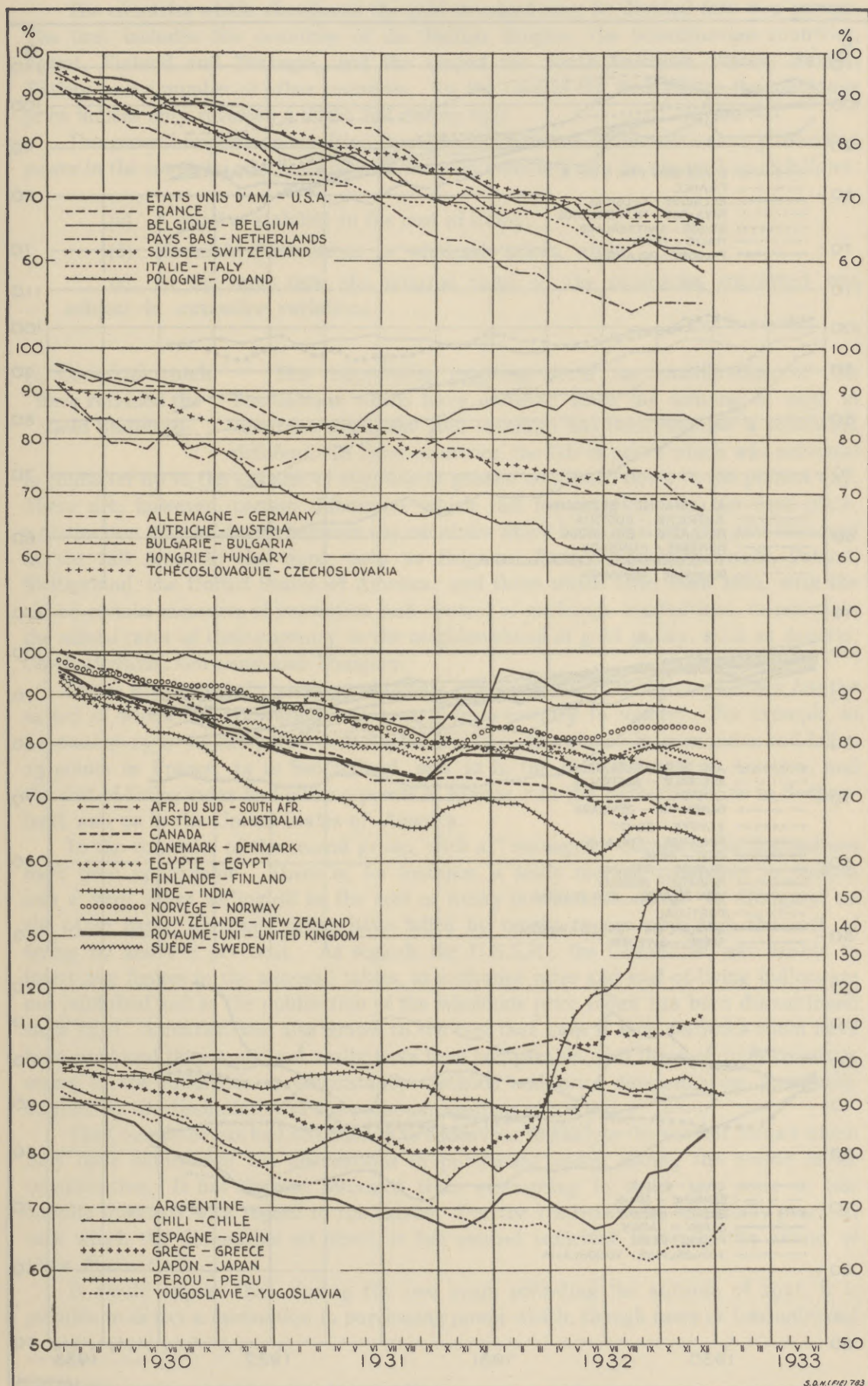
Wholesale prices, and to a lesser extent the cost of living, fell during these years in a majority of countries. This increase in purchasing power, however, was not uniform in all countries, though in spite of this the general tendency—viz., the general fall in prices—was universal in character.

Exchange Rates

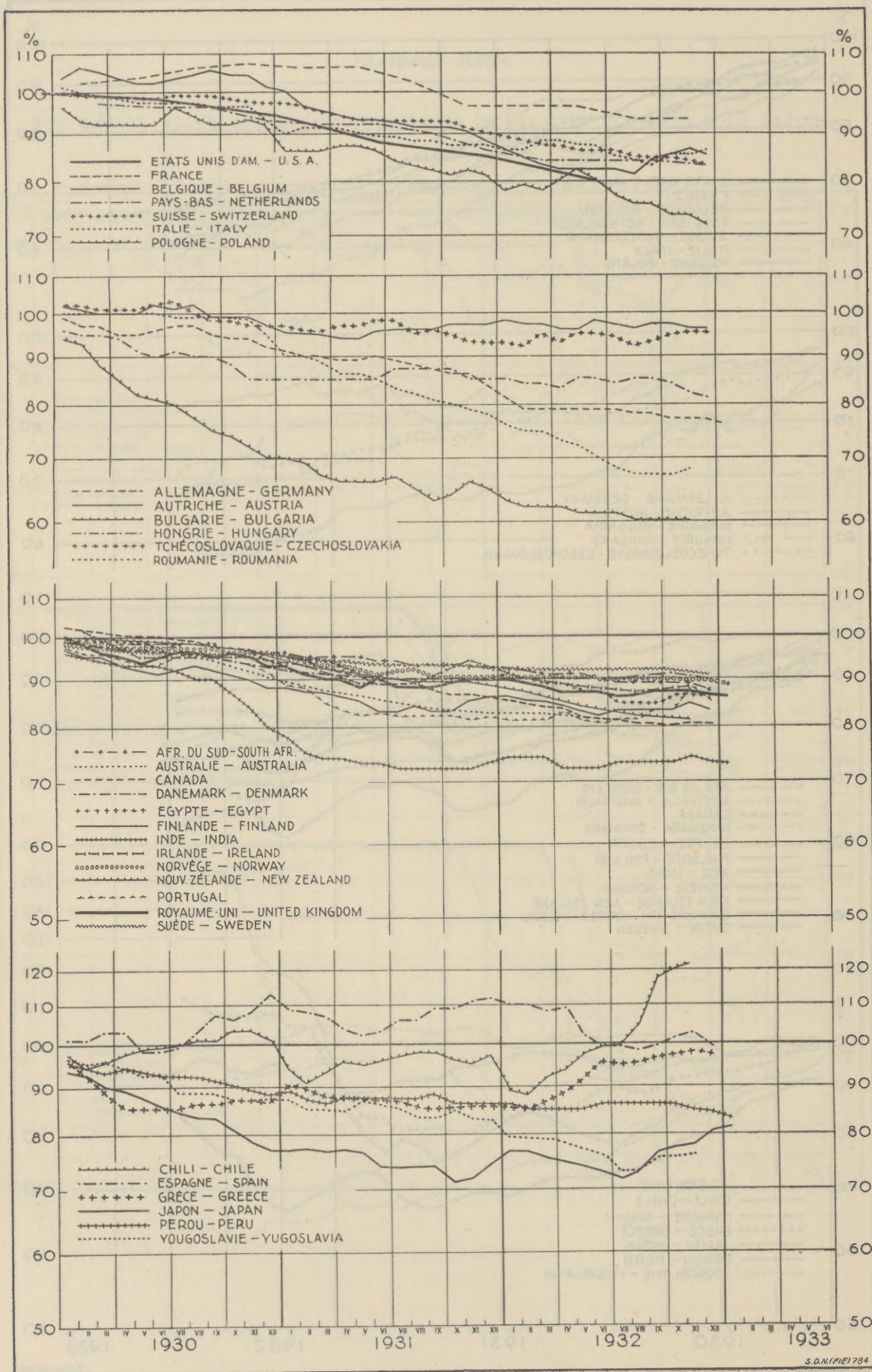
PERCENTAGE VALUE OF CERTAIN CURRENCIES IN RELATION TO THEIR GOLD PARITY.



Index Numbers of Wholesale Prices
In national currency (Basis: 1929 = 100)



Index Numbers of Cost of Living In national currency (Basis: 1929 = 100)



(b) **Countries which have abandoned the Gold Standard.** In the autumn of 1931, a large number of countries abandoned the gold standard. That event led to extensive fluctuations in the external value of currencies, whereas, with a few exceptions, their home purchasing power showed a relative steadiness.

The countries which abandoned the gold standard may be divided into two groups. The first includes the countries of the British Empire, the Scandinavian countries, Egypt, Finland and Portugal, and the second the South-American States, Mexico, Turkey, and a number of other countries. In the case of the first group, the wholesale price indices only revealed a slight fall during 1932.

The general impression resulting from the examination of fluctuations in purchasing power in the countries which abandoned the gold standard may be summed up as follows:

- (a) A relative stability in the cost of living;
- (b) Moderate fluctuations in wholesale prices, while
- (c) At the same time the external value of the currencies concerned was subject to extensive variations.

(c) **Countries which have retained the Gold Standard.** The impression resulting from an examination of the fluctuations which have occurred since the autumn of 1931 in countries where the gold standard has been retained is somewhat different. In these countries, the fall in prices which was universal in character up to the autumn of 1931 has in general continued down to the present day. There are, however, certain differences which call for mention. In the first place, a distinction may be drawn between the countries which have retained the gold standard in the full sense of the word, such as Belgium, France, the Netherlands, Poland, Switzerland, the United States of America, and those which have been able, with the aid of certain measures of restriction and control of exchange transactions, to maintain the official rates of their currency in the neighbourhood of gold parity, such as Austria, Czechoslovakia, Germany and Hungary.

In the first group of countries, wholesale prices and the cost of living show a fall the extent of which has not varied very greatly from country to country. For example, in September 1932¹ as compared with September 1931, the wholesale price index had fallen 13 points in France, 14 in Switzerland, and 12 in the United States of America, and the cost-of-living index had fallen 9 points in France, 7 in the Netherlands, 10 in Switzerland, and 12 in the United States of America.

In the countries of the second group, with a "managed" currency, the fluctuations have been appreciable. There is, for instance, a fairly marked steadiness in Austria and a very slight falling-off in the cost of living in Czechoslovakia. In Hungary, on the other hand, wholesale prices have fallen by nearly 15 per cent and the cost of living by about 8 per cent. As regards the U.S.S.R., the Committee was unable to insert any figures in the annexed tables, as exchange rates and cost-of-living indices are not published and as the publication of the wholesale price index has been discontinued since 1930. Attention was also drawn to the fact that even if such statistics could have been produced they would not really have been comparable with those of other countries owing to the difference in accountancy methods and price determination necessarily implied by the dissimilarity of the economic systems concerned.

The Committee has had no occasion to endeavour to analyse the various factors which may have determined the fluctuations in purchasing power during the period under consideration. It has likewise refrained from attempting to make any more or less definite forecasts with regard to the future. For the restricted and essentially practical task which the Committee set itself, it has seemed sufficient to study the extent of these fluctuations.

It would appear that, during the two years preceding the autumn of 1931, it is possible to detect a fluctuation in purchasing power which, though more or less universal

¹ This enquiry was carried out in January 1933.

in scope, was not uniform in extent in the various countries. During the succeeding period, this tendency would appear to have been maintained in certain countries only, while in others the situation was developing in a variety of ways.

It will also be recalled that, in the post-war period, measures of inflation were followed in certain countries by fluctuations which were both rapid and extensive. In recent years, no such serious fluctuations have been observed in any of the countries for which figures are available.

C. SCOPE OF THE COMMITTEE'S ACTIVITIES.

- (a) **When must Limits be adjusted ?** After this brief summary of the facts of the position, the Committee attempted to evolve some form of practical machinery for the adjustment of limits in the case of fluctuations of purchasing power.

It at once recognised that it was not necessary to contemplate any procedure to deal with fluctuations of a violent and rapid character. The Committee was agreed that, in cases of this kind, the budgetary method would no longer operate. No machinery is conceivable which would make the adjustments required by a collapse in the internal value of a currency such as the fall of the Reichsmark in 1923 or the devalorisation of the Austrian and Soviet currencies after the world war.

- (b) **Changes in the Cost of Armaments due to Other Causes than Fluctuations in Purchasing Power.** The exact purpose of the Committee's studies was to measure the influence of variations in purchasing power on the cost of armaments themselves. But it is possible that the cost of armaments will vary for reasons which have nothing to do with fluctuations of purchasing power. It may be affected by organic changes, or administrative reforms, or alterations in the methods of production of the material, or improvement in the quality of armaments. All these factors in the increase of the cost of armaments are independent of the question under discussion in this chapter. Only changes in the cost of armaments due to fluctuations in purchasing power are to be considered in the present instance.

- (c) **Must All Changes in Purchasing Power be taken into Account.** The question arises whether provision should be made for readjustment of limits in the case of any variation in purchasing power, however small. A mathematical solution by which the figures of the limits would have to be adapted to any fluctuation in purchasing power would involve very frequent readjustments. The Committee considers that it is not necessary from the practical point of view to proceed to adjustment of the limits whenever there is a variation in the purchasing power. The Budgetary Experts of 1931 took the view that fluctuations in purchasing power should only be taken into account where they have had the effect of seriously increasing the cost of armaments; and they also considered that it was not necessary to readjust the limits in cases where increase in the cost of certain armaments was counterbalanced by simultaneous decrease in the cost of other categories of armaments.

The Technical Committee on this point approves of the conclusions of the Budgetary Experts; but it desires to define the consequences of their conclusions. The readjustment of limits should only be contemplated in cases where the cost of armaments is affected by variations in purchasing power, and not by any other factor. There should be no question of readjustment unless the fluctuations of purchasing power are appreciable. The circumstances under which a readjustment of limits would be necessary are defined in the following formula:

“ Whenever a High Contracting Party proves that *appreciable* fluctuations in the purchasing power of currency have *seriously increased* the cost of its armaments, and

that in fact changes in the cost of certain items have not been compensated by changes in the opposite direction in the cost of other items, that High Contracting Party may ask for a readjustment of these limits."

The precise meaning of this stipulation will be explained in greater detail on pages 124 and 125, when the procedure for the adjustment of limits is discussed.¹

D. MACHINERY FOR THE ADJUSTMENT OF LIMITS.

- (a) **The Automatic System.** After defining the conditions to be realised as a preliminary to readjustment of limits, it is desirable to indicate a machinery under which such readjustment can be effected.

The Experts in 1931 considered the possibility of evolving an automatic system for the purpose. They began by considering whether automatic readjustments of the limits could be effected on the basis of existing indices in the different countries, or a combination of these indices. Owing mainly to the difference in the manner of compiling existing indices in the different countries, and the impossibility of finding any appropriate index for measuring variations in the cost of armaments, the Committee of Experts came to the conclusion that no existing index or combination of existing indices could constitute a suitable basis for the automatic readjustment of the limits fixed by the Convention. The Technical Committee entirely endorsed this conclusion.

The Experts then enquired whether it would be possible to draw up a special index showing the fluctuations in the cost of the national defence services. Such an index would have to be based on the data relating to the four main categories of expenditure in the Model Statement—viz., personnel, transport, buildings and war material.²

The Experts' studies led them to the conclusion that the establishment of a special index would meet with serious difficulties, the chief difficulty being the fact that such an index would not be able to measure changes in quality occurring chiefly in the case of material in process of technical development, especially air material. A special index would never be able to serve as a measure for a change of a general character in purchasing power. The Technical Committee accordingly, like its predecessors, has been unable to prepare a sufficiently satisfactory index to allow of automatic readjustment of the limits fixed by the Convention.

- (b) **Lump-Sum System.** It has been observed that the initial period of the duration of the Convention will probably have the character of a period of transition. In order to avoid the inconveniences resulting from excessively numerous demands for readjustment during this first period, it is possible to imagine some kind of lump-sum system allowing each State to increase its limit by a given amount to take into account fluctuations in purchasing power. The Committee wishes to communicate this solution to the Conference as a mere suggestion. If countries wish to avail themselves of this latitude, their rights should be defined in precise terms when the Convention is signed. It would be necessary to indicate in the Convention up to what percentage of the limit fixed excesses over that limit will be permitted in case of fluctuations in purchasing power.

¹ The Committee has taken into consideration the changes in purchasing power which have occurred since 1929. Fluctuations of such a nature, whether upward or downward, might lead to annual applications for a readjustment of the limitation figure. In reality, however, such applications will not inevitably be made, since a rise in prices usually compels a State to effect savings in public expenditure, and these savings may have the very effect of keeping the volume of national defence expenditure under the limitation figure.

² To show the relative importance of these four categories, the Technical Committee has drawn up tables, which are annexed to this report (see Annex 11), on the basis of the Model Statements filled in by the States.

The increases thus authorised might be effected without the States having to supply previous explanations. But they would have to notify the extent to which variations in purchasing power have led them to take advantage of the excess percentage, so as to make it possible to see whether other causes have also led to the excess.

This method would give States an opportunity of judging in advance the possible risk of changes in purchasing power. The arrangement would no doubt prevent numerous demands for adjustment in the initial period of the execution of the Convention.

(c) **The Living Organisation.** After this mention of a lump-sum system, it is necessary to study the principal method under which States might ask the Permanent Commission for adjustments of limits which might have been rendered necessary by fluctuations in purchasing power.

The idea of an automatic system based either on existing indices or on a special index having been rejected, the Technical Committee confirmed the conclusion of the budgetary experts that only a *living organisation* would be in a position to readjust limits in the case of fluctuations of purchasing power.

Before stating the reasons for this conclusion, it is desirable to point out that two articles of the draft Convention might be of some importance in connection with the solution of the question of the readjustment of limits by a "living organisation".

Article 59. Under Article 59, the limits fixed in the Convention and the methods for which the Convention provides may be the subject of periodical revisions in the course of the execution of the Convention in the event of the conditions under which the obligations for which the Convention stipulates were contracted undergoing (in virtue of technical changes or special circumstances) modifications justifying such revision. In its general tenor, Article 59 may be regarded as covering universal fluctuations of purchasing power also. In view, however, of the fact that the revisions for which it provides can only be effected after a certain interval, they cannot be regarded as a sufficiently rapid and elastic means of settling by themselves the problems arising out of fluctuations in purchasing power. The Committee wishes, however, to State that, from the technical point of view, the provisions of Article 59 might be applicable in the case of fluctuations which are gradual and universal in scope.

Article 50. The Committee has also considered whether recourse might possibly be had to the provisions of Article 50 of the draft Convention with regard to derogations. After a study of these stipulations, the Committee is of opinion that this article can hardly be interpreted as covering changes in the cost of armaments due to fluctuations in purchasing power.

Adjustment of limits. The Committee is anxious at the outset to define what it means by *adjustments*.

An adjustment is not a revision; it does not touch the contractual bases of the Convention and cannot involve or imply the slightest change in the scale of armaments themselves (effectives or material). Its only aim is to express in currency of changing value the same total sum of armaments.

If, in addition to a limitation of the total expenditure on national defence, the Conference considers limits for the expenditure on each force, it will be necessary, after adjusting the general limit, to assign to the special limits the same coefficient of adjustment as to the aggregate limit.

As regards the duties of the body which will be called upon to apply the system of adjustments, the Committee's discussions were singularly facilitated by the indications contained in the report of the Bureau of the Conference on the constitution of a Permanent Disarmament Commission consisting of representatives of every country and entrusted, in general, with the supervision of the execution of the Convention.

In the Committee's opinion, it should be left to this Commission to decide as to the adjustments resulting from fluctuations in purchasing power. No other body would

be better suited to carry out this difficult task. The Committee would nevertheless feel that it was failing in its duty if it did not emphasise here and now that questions of adjustment are of an exclusively statistical nature and that consequently all political elements of whatever nature should be excluded when taking decisions. Setting out from this premiss, it ventures to make the following suggestion:

Examination of requests by a sub-committee of the Permanent Commission.

It would seem, as stated in another chapter of this report, that the Permanent Commission might usefully set up a sub-committee whose sole duty would be to study the problems relating to the limitation and publicity of expenditure, and which at the same time would examine applications for an adjustment of limits and lay concrete proposals before the Permanent Commission

with regard to these applications. The Commission should not reject these proposals without hearing the said sub-committee.

The sub-Committee should, in the Technical Committee's opinion, be composed, not of representatives of Governments, but of experts in public accountancy and general and military administration; it should also be able to count on the assistance of special statistical experts. ¹

Co-operation with the Financial Committee of the League of Nations.

The Technical Committee has thus not thought fit to return to the suggestion put forward in 1931 by the Committee of Experts for entrusting to the Financial Committee of the League of Nations the investigation of requests for readjustment of limits. The Committee did not consider it desirable to ask the Financial

Committee, which is already overloaded with problems of a somewhat different nature, to co-operate regularly in the work of the Permanent Commission. Thus, while discarding the idea of constituting the Financial Committee a body regularly entrusted with these special studies, the Technical Committee was at the same time anxious to emphasise that it would be very desirable for the Permanent Commission to be able in case of need to refer to the Financial Committee for advice. The Committee has therefore been glad to receive from the competent services the assurance that the Financial Committee would always be ready to act in an advisory capacity.

E. PROCEDURE.

(a) By whom may Applications for Readjustment be submitted ?

In the matter of procedure, the first question arising is to determine who is to have the right to ask for adjustment of limits. It is clear that the right to submit a demand for adjustment of the limit allowed it by the Convention rests in the first place with the State concerned. But the Experts in 1931 had proposed that, in the

event of an increase in the purchasing power of a country, the other States should be entitled to ask for a readjustment of the limits of that country. The Technical Committee approves of this attitude. Referring once again to the general rule stated above that any change, if it is to be considered, must be of a certain magnitude, the Committee desires to point out that this rule must apply *a fortiori* in the case of applications for readjustment put forward by a State on the basis of an increase of purchasing power in another State. The supervising body will itself estimate as a matter of equity the admissibility of such an application.

¹ NOTE. — M. WORBS requested the Committee to express its opinion on the question whether the discussions of the Permanent Commission referred to in Chapter III, 2-6, of the report by the Bureau of the Conference regarding a Permanent Disarmament Commission (document Conf.D.148) would take place in the sub-committee or not. The Committee has not desired to express an opinion on this point, since it is a question of the procedure of the future Permanent Commission; M. WORBS therefore desires to draw special attention to this point.

In submitting an application for readjustment to the Permanent Commission, a State must submit all evidence in support of its request.

(b) **Utility of a Preliminary Procedure.** The Technical Committee discussed whether it would not be desirable to lay down certain rules to ensure that the readjustment procedure would not be set in operation by applications with little or no foundation. If, for example, a demand for readjustment is not justified in so far as concerns the primary condition—*i.e.*, changes in purchasing power—it would be useless to set the whole machinery in operation in order to examine whether or not there had been an increase in the cost of armaments. To make allowance for the possibility of such demands, the Committee has suggested a procedure by which they would be “*taken into consideration*”, to which it wishes to draw the Conference’s attention simply as a practical suggestion.

The sub-committee of the Permanent Commission entrusted with questions of expenditure would form a “small committee” to make a preliminary study of every demand for readjustment with a view to pronouncing on the question whether or not the readjustment procedure should be initiated, and to submitting its recommendation on this subject to the sub-committee for decision. This “small committee” should have power not only to consider demands for readjustment in order to pronounce on the question whether there is reasonable ground for a detailed enquiry, but also to study carefully the nature of the evidence and documentary material supplied, and to ask, if need be, for further particulars. Applications for readjustment would be communicated to the other countries only after being approved by the small committee.

(c) **Criteria required.** The Committee expressed the opinion above that only appreciable fluctuations in purchasing power which have seriously increased the cost of armaments should be taken into consideration. This essential rule also guided the Committee when it approached the problem of the operation of the system.

To establish the facts, price indices will, of course, have to be utilised. At the same time, for the reasons already noted, it is impossible to recommend the use of any particular combination of such indices. It was felt that the system should be as elastic as possible. Accordingly it seems hardly possible to fix definite rules in advance—for example, for the application of the various types of existing indices. It must be laid down as an essential principle that changes should be reflected to an appreciable extent in the different series of indices, including the index in which changes occur most slowly—*i.e.*, the cost-of-living index. As a general rule, changes must clearly be more considerable in wholesale prices than in cost-of-living indices. This rule cannot, however, be definitely fixed by indicating, for example, the mathematical ratio in the variation in the different series of indices which would be required to support a request for adjustment (by saying, for example, that before there can be a readjustment a change of x per cent must have taken place in the cost of living and of y per cent in wholesale prices). Such rules would not be sound, since the conditions for the establishment of the indices certainly vary a great deal.

The Committee fully realises that, in laying down the rule that a fluctuation in purchasing power in order to be taken into consideration with a view to a readjustment must be reflected both in the wholesale price index and in the cost-of-living index, certain fluctuations are excluded which, even if they are not reflected in these indices, may nevertheless in special cases possess a certain importance. Thus it was pointed out that, during the year 1931-32, a certain increase in purchasing power permitted the British Army to make economies amounting to about £500,000 sterling, or 1 per cent of its total expenditure. This increase in purchasing power, however, was not clearly reflected in the wholesale and cost-of-living indices. The Technical Committee nevertheless thought it useful to maintain the rule that a fluctuation must be appreciable and must thus be reflected in the cost-of-living index in order to be taken into account with a view to a readjustment. It would be unreasonable to endeavour to take into account every fluc-

tuation; and very strong practical reasons militate in favour of the establishment of a somewhat restrictive rule in this respect.

It will now have to be ascertained whether the change in purchasing power has had repercussions on the cost of armaments. This examination will have to refer to all the categories of armaments and to take into account, as the Experts proposed, any possible compensations. In each case, it will be necessary to consider the special conditions in the country concerned. Even if certain definite considerations may be mentioned (and the Committee has made a point of reproducing here the enumeration framed by the experts¹ no list of circumstances to be taken into consideration in examining applications can be regarded as exhaustive.

**(d) On whom will
lie the obligation
to furnish
Proof ?**

After endeavouring to lay down rules for the working of the system which it recommends, the Committee discussed the question of who should be responsible for supplying proof and what the nature of such proof would be.

In the case of a diminution of purchasing power producing an increase in the cost of armaments, it will be for the State asking for a readjustment to furnish proof. It will thus be for it to prove that the increase in the cost of certain armaments has not been set off by a drop in the cost of other categories of armaments.

On the other hand, in the case of an increase in purchasing power, it will be for the State asking for the readjustment of the limits of another State to supply proof; the last-named State would have the right to refute the evidence and the supervisory body will be free to ask for any information and to take the necessary decisions.

If it may be presumed from the budget figures that the limit assigned to a State will be exceeded, that State must, at the moment when the Model Statement of estimated expenditure is produced (see Chapter XIX), explain whether the increase is caused by the possibility of a rise in prices. If such rise in prices takes place during the execution of the budget, the State must in due time apply for the readjustment of its limits before sending in the Model Statement based on payments.

**(e) Nature of
Proof.**

It is clear from the foregoing survey that the proof to be adduced before the Permanent Commission will concern a large number of circumstances and facts. There must be proof (a) that fluctuations in purchasing power have occurred, and (b) that such fluctuations have involved a change in the cost of armaments.

In order to show that the purchasing power has varied, it will be necessary to employ indices, in the first place, wholesale price indices and cost-of-living indices. Such indices must cover the whole period which has elapsed since the last fixing of the limits. It follows that each State would do well, after the conclusion of a Convention, to supplement its statistical data so as to be able to supply, if need be, the necessary evidence to show clearly the fluctuations in purchasing power.

As regards ascertaining that a change has occurred in the cost of armaments, it is even more difficult to indicate beforehand the nature of the proof to be adduced. The

¹ 1. Inflationary developments in a country which no longer maintains the gold standard. In such a case, the readjustment would probably only have to be made in the figures of the country where the inflation has occurred.

2. A general increase of salaries and wages in a country, for instance, as the result of an increase in the cost of living.

3. The question whether or not an increase in salaries or wages represents an endeavour to increase the quality of the defence services by granting higher pay to the personnel.

4. The question whether or not the increase in the pay to the defence personnel is accompanied by an increase in pay in the civil service.

5. Changes in wage levels, the price of the raw materials needed, and the methods of production, affecting the price of war material.

6. The question whether economies have been effected as a result of rationalisation in the widest sense of the word.

7. The question whether an apparent increase in cost is not due to an improvement in "quality", in which case it should not lead to a "readjustment" of the figures.

8. The question whether, in the case of countries purchasing a portion of their war material abroad, there has been a real increase in prices in the country or countries from which the material is purchased.

Committee has therefore not thought it advisable to draw up an exhaustive list of evidence to be given by States. Generally speaking, States must be ready to support applications for readjustment by all the necessary explanations.

The particulars must relate to the date of the application for readjustment and to the date of fixing of the limits subject to readjustment and also to the whole of the intermediate period.

The Committee, considering the putting into operation of the procedure for readjustment of limits in the case of fluctuations in the purchasing power of currency, wondered whether the strict verification of proofs and evidence supplied by States would not mean that they must produce certain information, such as contracts or statistics, which States themselves do not generally make public.

Although this is a general problem relating to the exercise by the Permanent Disarmament Commission of supervision over all contractual obligations arising out of the Convention, the final settlement of which rests with the Conference itself, the Technical Committee feels that it is not exceeding its powers in expressing the opinion that, in such cases, the Permanent Disarmament Commission might, for practical purposes, rest content with the explanations given by the Governments and that the latter should not be required to produce unpublished documents.¹

**(f) The Powers
of the Permanent
Commission
in respect of
Procedure.**

In view of the complexity of fluctuations in the purchasing power, the Committee thinks it would be advisable to give the Permanent Commission the greatest possible liberty in examining applications.

The Committee believes, moreover, that such liberty would be in conformity with the provisions laid down in the report submitted to the Bureau on December 7th, 1932 (Conf.D./Bureau 39). The report states:

" Article 7.

" The Commission shall receive all the information which the High Contracting Parties are bound to communicate to the Secretary-General of the League of Nations in pursuance of their international obligations in this respect. The Commission may request the High Contracting Parties to supply, in writing or verbally, any supplementary particulars or explanations in regard to the said information which it may consider necessary."

**(g) Local
Investigations.**

The Technical Committee has noted that the report of the Bureau provides for local investigations as follows:

" Article 10.

" Any High Contracting Party whose attitude may have been the subject of criticism shall be entitled to request the Commission to conduct in his territory such investigations as may be necessary in order to verify the execution of the obligations of the said Party under the present Convention.

" On receipt of such a request, the Commission shall meet at once in order to give effect to it, to determine the scope of the investigation within the limits of the criticism which has been made, and to lay down the conditions in which the investigation is to take place."

With regard to this provision, the Technical Committee would merely point out that, in order to form an opinion on requests for readjustment, it would appear sufficient to conduct an enquiry by means of documents and oral questions, and that it will not be

¹ Colonel KISSLING (Switzerland) and Mr. LYON (United Kingdom) express the opinion that although, as a general rule, the production of unpublished documents would not be necessary, they might need to be produced in exceptional cases.

necessary to make investigations in armament factories, Treasury archives or ministries of defence. It should be added that, as regards distant countries, local investigations would certainly not, in the Committee's opinion, constitute a practical means of supervision.

The question has been raised whether, as a result of a readjustment of the limits of one State, the limits of other States must also be readjusted and what procedure should be followed in that case. As, however, the Permanent Commission will consist of representatives of all countries, and consequently the States will be in a position to raise any questions concerning themselves in that Commission, it does not appear necessary to provide for other measures in this respect beyond merely providing that the Permanent Commission should have the power to consider whether, as a result of a revision of limits for one State, a readjustment of the limits of the other contracting parties would also be justified.

This possibility of extending the procedure would certainly be of great value in the case of universal fluctuations in the purchasing power.

F. CONCLUSIONS. ¹

In conclusion, 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 readjustment of the limits that will enable the latter to retain their full contractual value.

¹ NOTE. — M. WORBS (Germany), Major-General BARBERIS (Italy) and M. ANDO (Japan) are, like the other experts, of opinion that the only solution enabling fluctuations in the purchasing power of national currencies to be taken into account is to have recourse to a living organism—*i.e.*, to the Permanent Disarmament Commission.

They think it advisable to draw the Expenditure Commission's attention to the following points, some of which have not only a technical but also a political character, which is not within the Committee's competence:

(1) The figures of the limits fixed for each State in national currency at the time of signing the Convention will not always remain the same during the period of the Convention, but may have to undergo modifications in the case of a greater or smaller number of States;

(2) The Permanent Commission might have much too extensive powers as regards budgetary limitation;

(3) In certain cases it will only be possible for the Permanent Commission to give its sanction a long time after the fluctuations in purchasing power have taken place. For this reason its practical efficacy will be very small.

The above-mentioned experts wish to emphasise that the present economic situation of nearly all the countries of the world does not justify the hope that the purchasing power of national currencies will in future undergo no fluctuations, or will only show fluctuations of small extent. If, however, important fluctuations occur in several States, the proposed system will be unable to operate.

Chapter XIII.

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

1. Principle of the Limitation of ANNUAL Expenditure. The system of limitation laid down in Articles 10, 24 and 29 of the Draft Convention set forth in detail in the report of the Committee of Budgetary Experts and in the present report is based on the limitation of the *annual* expenditure of the contracting parties. The fixing of *annual* limits is, in the Technical Committee's opinion, essential alike for the practical application of the Convention by States and for the efficacy of international supervision provided by the Convention.

2. Deliberations of the Committee of Experts on Budgetary Questions.

(a) *Possible variations in expenditure from one year to another.*

The Committee of Budgetary Experts felt that, if all that was done was to fix equal annual limits for each year during the period of validity of the Convention, States would be obliged to ask for high limits in order to meet the inevitable variations

which occur in the volume of payments during a number of consecutive years.

The volume of payments on account of national expenditure may indeed vary to some extent in any one country from one year to another. The normal causes of fluctuations in the volume of expenditure may be of several kinds.

(a) Financial difficulties or economic circumstances of an exceptional character may make it impossible to carry out, in the course of the year, part of a programme for which credits have been granted. Should the financial situation improve, it may happen that in the following year both the programme for that year and the work that could not be executed in the previous year will be carried out.

(b) Purveyors and contractors with whom the national defence services have concluded contracts for supplies or construction sometimes effect delivery after the prescribed date, the delay being due to strikes or to a glut of orders. Although, as a rule, such delays carry with them penalties provided for in the contracts, they may assume some importance, and the payments attaching to the deliveries in question which concerned a specific year will not be made until the following year. If, the following year, the deliveries relating to orders placed that same year are effected without any delay, the total payments during the year will be greater than the total payments for the preceding year.

(c) The execution of big orders for material (guns, buildings, ships) may extend over periods of two to five years. First, the plant is set up and the yards organised; next, the raw material and semi-finished products which will be required for manufacture or construction are purchased. Deliveries of finished products are effected serially or all at once. Although, in order to ensure the continuous operation of undertakings, the practice of paying certain sums on account whenever a subsidiary piece of work is executed, or even paying advances before the work is begun, is becoming more and more general, the largest disbursements are effected after delivery, at the time of final settlement. For certain orders,

payments tend to follow an ascending curve and it may thus become necessary to make particularly large payments during a given year.

(d) To obtain better prices, by taking advantage of favourable seasonal market conditions or temporarily favourable prices for certain foodstuffs, raw materials or semi-finished products, it may be expedient to make bulk purchases of the same nature at a given moment. Non-industrial States may also find it advantageous to combine their purchases of material from abroad in order to obtain better prices, for the unitary price of materials varies in inverse ratio to the size of the delivery.

These fluctuations in the volume of payments are encouraged, moreover, by the practice of carrying forward credits—*i.e.*, by the possibility, which exists, in one form or another, in nearly every State, of extending beyond the financial year, for a period of one or more years, the validity of certain authorisations to incur expenditure. This practice of carrying forward credits, concerning which the necessary details are given in Chapter V of this report, does not, however, play any part in the mechanism for the limitation of expenditure based on payments, since all payments effected during any one year must be shown in the Model Statement irrespective of the nature and origin of the credits.

(b) *Necessity of allowing a certain elasticity in fixing the limits.* These considerations suffice to show that, even if no organic reason occurs to cause or justify an increase in expenditure, the payments effected in the course of several successive years may concern quite different sums. If, then, it is desired to ensure that States will not be led to demand high limits in order to cover such fluctuations in the volume of payments, it will be necessary to allow a certain elasticity in fixing the limits.

But there is also one very important reason which would justify such elasticity. As was shown in Chapter IV, the limitation of armament expenditure must have the effect of limiting armaments themselves at the same time. In order to obtain the result, the ideal would be to be able, by limiting the payments for any one year, to limit the armaments manufactured during that year. This, however, is not strictly possible in any case.

Certain countries include in the annual accounts the revenue received and the payments made during a period of twelve months. As a certain lapse of time necessarily occurs between deliveries and payments, in order to carry out operations relating to liquidation or “ordonnancement”, certain payments shown in the accounts at the very beginning of the financial year correspond to deliveries effected at the end of the preceding year. Again, at the end of the year of twelve months, material is delivered which will not be paid for until the early days of the following year. Thus, in such countries, the limitation of expenditure will limit not exactly the material delivered during the financial year, but rather the material delivered during a period beginning towards the end of the preceding financial year and ending shortly before the close of the current financial year.

To consider now countries which have additional periods: two cases must be distinguished.

If the additional period is employed simply for the liquidation, “ordonnancement”, and payment of deliveries which must necessarily be effected before the close of the twelve-month year, it is certain that, in that case, the limitation of the payments shown in the accounts for that year will involve a limitation of the services rendered and materials delivered during the twelve-month year.

In exceptional cases, however, it is possible, as regards supplies of material, to effect delivery during a part of the additional period; thus, the limitation of the payments shown in the accounts for the year will have the effect of really limiting the deliveries effected, not during a period of twelve months, but perhaps during a period of thirteen, fourteen or even fifteen months.

**3. Proposal
of the Budgetary
Experts
with regard to an
Average Limit
for a Period of
Several Years.**

It will be seen, then, that the limitation of the payments shown in the accounts applies at the same time to different periods during which payments must be effected in order to be booked in the accounts of that year, and also that the effects of the limitation of expenditure on armaments manufactured will not be the same in every case. By limiting annual payments, it will therefore be impossible to effect the limitation of armaments during the same periods for all States. For these various reasons, the Budgetary Experts proposed that the limitation of payments should apply, not to payments for each year, but to the average level for a period of several years. They accordingly proposed the insertion in the Convention of the following clause:

“ 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 . . . ”

Thus, according to the Budgetary Experts' proposals, States should undertake not to exceed a specified total of expenditure during each period of four years and not to exceed one quarter of that total in any one year. This last-named figure might, however, be exceeded up to a certain percentage during part of the four-year period, provided that any such excess were set off by corresponding reductions during the rest of the period. Account could thus be taken of the normal fluctuations in the volume of payments during the execution of the Convention.

**4. Impossibility
for the Technical
Committee
to make Definite
Recommendations
at the
Present Stage of
the Conference's
Work.**

Having examined the Experts' proposals and recognised the necessity for an annual limit in accordance with the general provisions of the draft Convention, the Technical Committee does not see its way at present, particularly in the absence of indications as to the duration of the Convention and the relations that might exist in fact between the figures for the actual expenditure of the various States and the limits fixed by the Convention, to submit definite recommendations either as regards the duration of the period for which an average limit might be contemplated or as regards the portion of the excess percentages or even as to the conception of such a percentage. Only when the financial effects of the Conference's decisions can be estimated will it be possible to express a definite technical opinion on this point.

**5. Considerations
which should be
taken into
account.**

The Technical Committee is, however, of opinion that the period to which any annual average limit should apply should be long enough to provide opportunity during that period of ascertaining how the States have proved that they are fulfilling their obligations in respect of limitation. The period to which the obligations in respect of limitation apply must also be short enough for the final evidence in respect of the annual average limit to be obtained fairly rapidly.

Without wishing to deal here with the problem of fixing contractual limits, the Committee considers that, from the technical point of view, apart from other considerations, account must be taken of expenditure relating to military activities which are not subject to any special limitation; moreover, the limits must not prevent the

contracting States from ensuring the regular execution of programmes of manufacture or construction of material drawn up by the various States within the framework of the decisions taken by the Conference or of the limitations provided for by other conventions remaining in force after the conclusion of the Disarmament Convention; nor must the States be prevented from providing for the upkeep of material.

Lastly, the fixing of limits in the Convention, or on the occasion of the revisions to be undertaken under Article 59 of the draft Convention, must enable the contracting States to give their personnel and troops an adequate standard of living.¹

APPENDIX TO CHAPTER XIII.

PROPOSAL BY M. JACOMET.

Without wishing to prejudge questions regarding the fixing of an annual average limit and a percentage of permissible excess, M. JACOMET (France) desires to submit to the National Defence Expenditure Commission the following considerations, which might be utilised at a later stage of the work.

1. *Average Annual Limit.*

If the principle of an average annual limit were established, there would be no objection to allowing a State to exceed its average limit in any given year, provided that *the average expenditure incurred by it from the beginning of the application of the Convention should at no time exceed the amount of its average limit.*

If the limit is taken as L , then at the end of n years the State must not have spent a sum exceeding $n \times L$. In other words, a State cannot during the n th year exceed its average limit by more than a sum equal to the difference between $n \times L$ and the amount previously spent by it during that year or the previous years.

Example in the event of the period to which the average limit applied being four years. —
A country having an annual average limit of 100 might spend, for example:

In the first year	90
In the second year	95
In the third year	110
In the fourth year	105

The same State, however, would not be allowed to spend 105 in the first year, 110 during the second; 95 in the third and 90 during the fourth.

Under such a system, the State may utilise the *whole* of the sum it is authorised to spend *during the period of the Convention.*

If the expenditure for the four years is denoted by a , b , c and d respectively, and L is the average limit for four years, the following conditions will have to be fulfilled:

First year	a	$\leq L$
Second year	$\frac{a + b}{2}$	$\leq L$
Third year	$\frac{a + b + c}{3}$	$\leq L$
Fourth year	$\frac{a + b + c + d}{4}$	$\leq L$

¹ NOTE. — Major-General BARBERIS and M. WORBS point out that in any case the supervision of expenditure on a juridical basis will not be final until after a long period, which might perhaps amount to six or seven years, and that consequently this supervision will be ineffective.

They feel it necessary to emphasise that this constitutes a vital defect in the system contemplated by the Budgetary Experts.

2. *Fixing of a Percentage.*

The fixing of a percentage for an annual excess beyond the average limit may be useful in giving the Convention more flexibility, in view of the fluctuations in the expenditure level that occur in all countries. It would prevent States being led to ask for very high limits above their permanent requirements, and it would be in no way incompatible with the system considered above. The utilisation of the percentage should, however, be made subject to the following conditions: if L is the average limit for four years and p the percentage of excess, then a State's expenditure should in no case have exceeded:

At the end of the first year: $L + p$.
At the end of the second year: $2L + p$.
At the end of the third year: $3L + p$.
At the end of the fourth year: $4L$.

Example. — Suppose a State has an average limit of 100 and an excess percentage of 5. The State can spend in the first year 105.

Suppose in the second year the State spends 90.

In the third year, it can then spend 110 but not 115, because there can be no question of allowing it to utilise the percentage from the moment that its annual expenditure already exceeds the average limit plus the percentage ($100 + 5 = 105$).

In such a case, it is clear that the State cannot spend more than 95 in the fourth year.

Allowance may also be made for the possibility of a State's not using in a given year the whole excess percentage to which it is entitled. It will be seen from the above formulæ that, in such a case, the balance of the percentage may be used in the following years.

Example. — A State spends 102 in the first year.

It may spend 103 in the second year, or 102 in the second year and 101 in the third year, etc.

The point of this proposal is that, for each year of the period to which the annual limit applies, it enables the maximum figure which each State must not exceed to be fixed *automatically*, while allowing States to make use of all the rights conferred upon them by the annual average limit, and makes it possible to ascertain each year that the States have not exceeded the figure thus automatically fixed.

Chapter XIV.

TRANSFERS¹ BETWEEN THE LIMITS OF THE THREE FORCES.

The question of transfers (*virements*) between the limits of the three forces could arise only if it should be found possible to separate the expenditure of the three forces with a view to the special limitation of such expenditure.

This latter question has been dealt with in Chapter IX. According to the conclusions of this chapter, if the Conference decides that separation of the expenditure on the three forces should be verifiable on the basis of figures taken *en bloc*, in a high proportion, from the audited accounts, this separation is not possible for all countries as their accounts are at present made up. Such separation, however, is not of itself impossible, provided that countries which do not at present keep separate accounts for the expenditure of each force agree to institute such a system of accounts. Only in case the Conference felt it should accept, for the separation of the expenditure on the three forces, a distinctly lower degree of controllability than can be achieved in isolating the total expenditure of each State could separation of the expenditure on the three forces be regarded as possible.

The Committee was in favour of dealing with the question of transfers between the limits of the three forces in the event of the Conference's discussing the separation of expenditure on the three forces. But this question will be dealt with only from the theoretical standpoint, particularly as any attempt to deal with it in a concrete manner would encounter difficulties of the same nature as those which were explained in Chapter XIII in connection with the average limit of expenditure for a period of several years and the annual percentage by which this limit might be exceeded.

The question must be examined from three different aspects, to which the three subdivisions of the present chapter correspond:

- A. Should the possibility of transfers between the limits fixed for the three forces be admitted or not ?
- B. How should transfers, if any, be effected ?
- C. Between what limits could transfers be allowed ?

A. SHOULD THE POSSIBILITY OF TRANSFERS BETWEEN THE LIMITS FIXED BE ADMITTED OR NOT ?

It might be thought that, once separation of expenditure for the three forces is decided upon, no variation between the limits should in theory be admitted, as this would be contrary to the very principles on which the decision for separation was based.

Nevertheless, due account should be taken of the difficulties which exist, especially in certain States, in effecting separation. These difficulties, the importance of which was recognised by the Committee in Chapter IX, were emphasised in the Expenditure Commission by the representatives of China, Czechoslovakia, Estonia, Finland, Germany, Japan, Persia, Poland, Portugal, the United States of America, and Yugoslavia.

¹ The term "transfer" has been employed by analogy with the terminology adopted in the Naval Agreements, in which reference is made to the possibility of transfers of tonnage between the different categories of vessels subject to limitation.

On the same occasion, it was also asked that, if the principle of separation were broadly admitted, exceptions should be allowed, for example, for States whose national defence expenditure does not exceed a given figure ¹ or for those placed in special situations (Polish proposal—document Conf.D./C.D.24 ¹).

The Committee, having recognised in principle that the degree of controllability in present circumstances which can be achieved in separating the expenditure on the three forces for limitation purposes is distinctly lower than that which can be achieved in verifying the total expenditure of each country, considers that if, notwithstanding this difficulty, the Conference thought it advisable to decide in favour of the separation of the expenditure on the three forces, there would be no grounds for agreeing, in the case of transfers, to exceptions which would be contrary to the principle of equality between the signatory States. On the contrary, the difficulties in the matter of separation might be reduced for all countries if it were possible to make transfers between the limits allotted to the three forces, and this possibility, which would be a mitigation of the actual principle of separation, might facilitate its acceptance and systematic application. Allowance might be made for the major difficulties adduced by some countries by agreeing in their case to the possibility of larger transfers between the limits of the three forces. These problems would ultimately have to be considered.

Another case considered by the Committee was that in which direct limitation of the armaments of one of the three forces (say, naval armaments) should already have been admitted for a number of States, and it was pointed out that, in this case, the limit for expenditure on this force should correspond to the rights recognised to each State in the other parts of the Convention, and that consequently no transfer of funds could any longer be admitted, since it would upset the balance between budgetary limitation and the limitation of material.

This is quite true, but it may be pointed out that, even in this case, there might be fluctuations of expenditure which would make it advisable to authorise certain transfers between the limits. In such cases, however, a very small margin should be fixed for possible transfers.

The question was also raised whether transfers between limits should apply even to expenditure on war material included in Head IV of the Model Statement in the event of the limitation of expenditure on such materials being prescribed.

It was pointed out in this connection that the said expenditure being included in the totals of expenditure of each of the three forces, should the possibility of transfers between the limits of the three forces be allowed, these transfers will also apply implicitly to the expenditure of Head IV.²

As, moreover, the question of the limitation of air material has never been referred to the Committee, it cannot deal with the question of transfer of the expenditure relating to this material.

B. HOW SHOULD TRANSFERS BE EFFECTED ?

The Committee of Experts on Budgetary Questions, in Chapter 15 of its report, dealing with “*virements*” as between the limits of the three forces, drew attention to a proposal submitted to it to allow *virement* within narrow limits in the event of its being decided to limit land, naval and air expenditure separately.

The proposal might take one of two forms:

1. A limit (A) would be fixed for the aggregate expenditure on the three forces and separate limits (*a*, *b* and *c*) for the total expenditure on the several forces, limit A being less than the sum of *a*, *b*, and *c*;

¹ See Minutes of the National Defence Expenditure Commission, page 48.

² In Chapter X of the report, the Committee has made a technical study of the problem of the separation of expenditure on land and naval material. For similar reasons to those given for the separation of expenditure

2. A separate limit would be fixed for the total expenditure on each of the forces, but percentages of *virement* authorised between these three limits would also be prescribed. These percentages would be fixed by agreement between the Powers represented at the Disarmament Conference for each country in accordance with its special situation.

The Committee examined the two forms of this proposal:

Theoretically, the first is characterised by greater elasticity. The difference between the total of the three limits *a*, *b* and *c* and the limit *A* for expenditure as a whole represents as it were a reserve fund which can be transferred for the benefit of one or other of the three forces, provided that the individual limit fixed for each of them is not exceeded.

In practice, however, each of the ministerial departments, or each of the component services of a single national defence department, responsible for providing for the needs of the three forces must of necessity know at the very beginning of the *exercice* on what sum it can count with certainty. In the first place, therefore, it will be necessary to fix three lesser limits *a'*, *b'*, and *c'*, which together must equal limit *A*; these lesser limits will represent the sums to be placed at the disposal of the ministries or services responsible for the expenditure of the forces concerned, with the proviso that they may be raised to the higher limits *a*, *b* or *c* through the transfer of sums withdrawn from the credits allocated to the two other forces.

As the difference between *a* and *a'*, *b* and *b'*, *c* and *c'* can be easily converted into a percentage of *a*, *b* or *c*, the first formula would in practice lead to the same result as the second, which has the advantage of being more readily understood.

It might be set out explicitly in the following terms:

Transfers shall be allowed between the limits fixed for each of the three forces, provided that the resultant increase does not exceed for each limit the following percentages:

Land Forces.	<i>x</i> %
Naval Forces	<i>y</i> %
Air Forces	<i>z</i> %

The percentage might, of course, be the same for the three forces.

C. BETWEEN WHAT LIMITS COULD TRANSFERS BE ALLOWED ?

The excess percentages to be applied to the limit fixed for each of the three forces would have to be fixed by the General Commission and the percentages fixed should be low.

Attention should be drawn to the fact that the question of transfers between the limits of the three forces belongs to the group of four questions relating to the fixing of the limits and that, consequently, the conclusions to be adopted for each of them should be examined within the general scheme for the fixing of those limits.

These questions are so closely bound up with one another that any attempt to reach separate conclusions which did not take sufficient account of the necessity for estimating the total effects of such a mode of procedure might lead to situations differing greatly for the various Powers, and likely also to affect appreciably the original relationship between the expenditure on the three forces.

on the three forces, the Committee considers that, on this assumption, it would be necessary to admit the possibility, within each limit for the expenditure on land and naval forces, of transfers between the respective expenditure limits for land and naval material and the other expenditure of each of the land and naval forces.

Account must, however, be taken of other factors which would ensue, more especially from the difficulty of separating accurately the expenditure of the three forces. As has already been shown, such separation frequently necessitates recourse to estimates based upon subjective criteria which in consequence can only be approximate. In the present report, moreover, we have examined certain problems relating to the value of material supplied by one service to another and also to the volume of payments in arrears. These problems would be calculated to affect variations in the limitation figures as between the expenditure on each of the three forces. Though for the moment it is unnecessary to dwell upon the relationship between these questions, the foregoing considerations point to the need for great strictness in regard to the possibility of allowing derogations or of permitting fluctuations in the limits fixed if the limitation of armaments by the budgetary method is to produce effective results. In the case under consideration, it would appear extremely desirable to fix the percentage of variation which might be authorised between the expenditure on the three forces at a very low figure.

In conclusion, the Committee considers:

- (1) That the possibility of transfers between the limits of the three forces should be allowed in the case of a separation of the expenditure for the three forces;
- (2) That the maximum limit within which transfers would be authorised should be fixed in the form of a stated percentage of the limit fixed for the expenditure on each force;
- (3) That this percentage should be low.

NOTE BY MR. LYON.

1. I do not think that this chapter deals sufficiently with the question of principle implied in the proposal to permit transfers between the limiting figures for the Land, Naval and Air Forces.

2. The question, of course, only arises if separate limits are fixed for the three services. With a single limitation figure covering all three services, it is obvious that Governments will retain the right of dividing that limiting figure in any proportion they like as between the three forces. New circumstances or an invention, for example, might render one force much more important than another, and, with a single limiting figure and complete right of transfer, a State could develop this force at the expense of the less important force or forces.

3. The prevention of this operation appears to me to be one of the main principles upon which the desirability of having separate limits for each force is based. The right of transfer would tend to facilitate the very operation which separate limits are designed to prevent. The proposal therefore appears to me illogical.

The proposal also appears to me to be contrary to the spirit of the resolution adopted by the General Commission on July 23rd, 1932 (document Conf.D.136(I)), paragraph III 2 (a) of which states that "the Conference shall decide . . . what systems of limitation . . . of expenditure will . . . prevent the measures of qualitative and quantitative disarmament . . . from being neutralised by increases or improvements in authorised armaments".

4. The proposals, moreover, appear to me to be unnecessary. If a limiting figure is adopted for each service, this figure, if the Convention is to be logical, must presumably reflect in money the rights to armaments permitted to Governments under the other sections of the Convention or elsewhere. If this is so, each service (Army, Navy, Air) will have all the money it needs and no transfer seems to be necessary.

5. If the limiting figure is not constructed on the above basis, I do not feel in a position to arrive at any opinion on the subject without knowing the principles upon which the limiting figure will in fact be constructed. In any case, I do not agree with the reason for proposing the right of transfer, as given in the report of the Budgetary Experts of 1931 (Chapter 15, paragraph 2): viz., that transfer should be permitted because a State cannot foresee "the development of expenditure which will follow the technical evolution of the respective forces". This reason seems to be opposed to the principle of the resolution of the General Commission quoted above.

(Signed) K. LYON.

Chapter XV.

SPECIAL PROCEDURE REGARDING CERTAIN UNFORE- SEEABLE AND EXCEPTIONAL EXPENDITURE NOT INVOLVING AN INCREASE IN THE ARMAMENTS OF THE COUNTRY INCURRING IT.

In Chapter II of this report mention was made of certain unforeseeable and exceptional expenditure not involving an increase in the armaments of the country incurring it. When, for example, in consequence of natural disasters—such as earthquakes, cyclones, tidal waves, floods, serious explosions, and epidemics—the armed forces are called upon to assist civilians, their intervention entails additional expenditure under such heads as transport, increased rations, and wear-and-tear of effects or of certain material. It is possible, of course, that such expenditure may be wholly or partly repaid by the recipients of assistance from the armed forces. Such natural disasters or accidents may also involve the loss or destruction of naval units or military material, the reconstruction or reconstitution of which will entail additional expenditure. Again, the suppression of internal disorders, civil wars, and revolts in distant possessions, and the protection of the imperilled lives and property of nationals, may call for the intervention of the armed forces and involve exceptional expenditure. Lastly, in consequence of the reduction of armaments itself, Governments may be obliged, on account of the withdrawal of certain garrisons, to compensate municipalities which have already incurred expenditure for the accommodation of the troops. The cancellation of certain contracts for supplies or buildings—*e.g.*, the cancellation of a contract for the building of a warship—may entail the payment of large compensation.

The Technical Committee is not entitled to prejudge any questions that may arise in regard to the legitimacy of any particular case contemplated above; and, considering the matter from the technical standpoint alone, it expresses the opinion that the Convention would be lacking in fairness if it did not provide a procedure enabling States to have such expenditure excluded from the figures they would be called upon to produce in evidence of the fulfilment of their contractual engagements. The Technical Committee therefore recommends the following procedure for such cases:

When a State is called upon during a year to meet extraordinary expenditure in respect of the cases enumerated above, it must, as was stated in Chapter II, include the expenditure in the Model Statement produced in evidence of limitation, but it may indicate to the Permanent Commission the nature and amount of such exceptional expenditure, and may prove by definite evidence that that expenditure does not represent an increase in its armaments.¹

Having considered that evidence, the Permanent Disarmament Commission would examine:

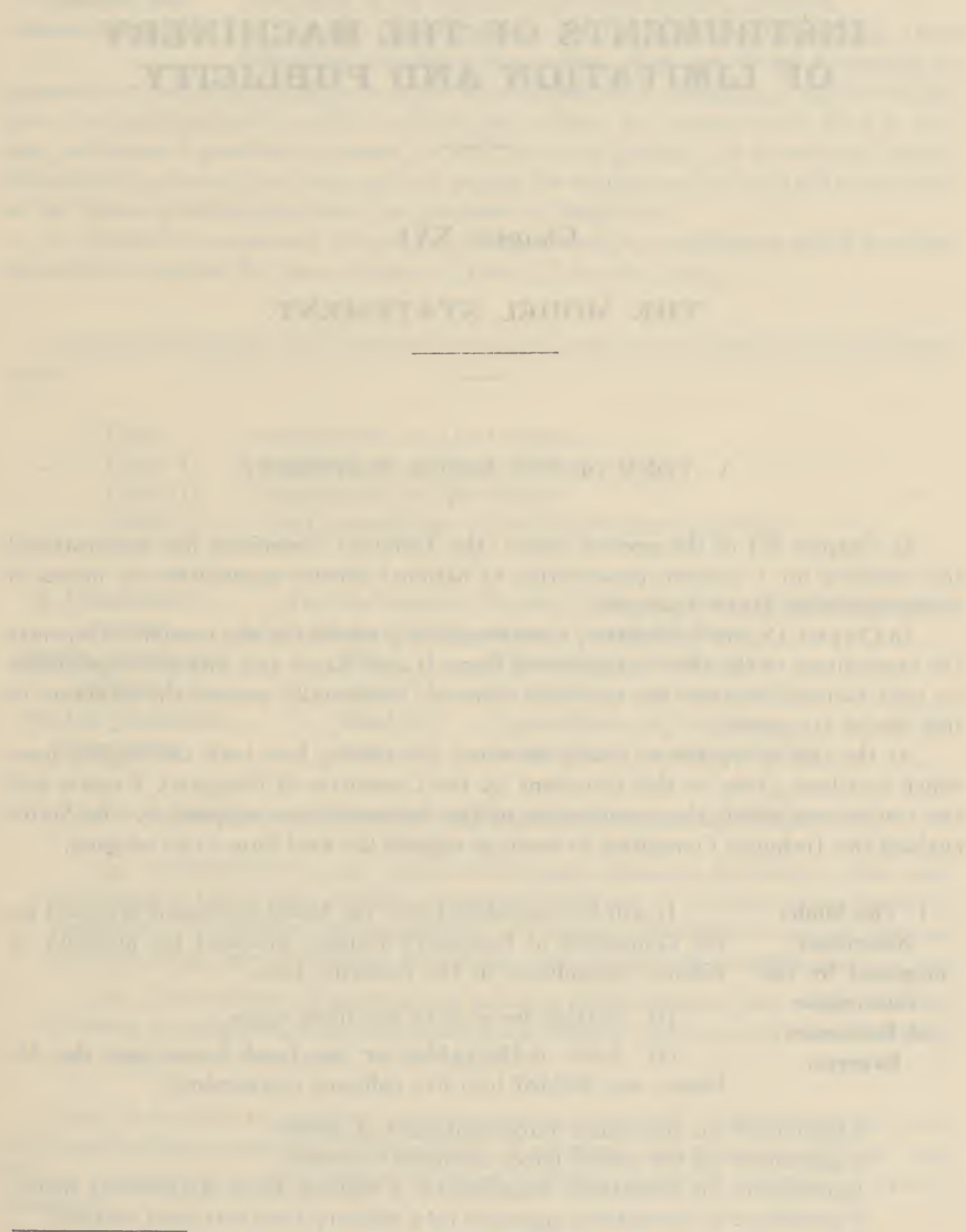
- (a) Whether the expenditure in question had really been applied to one of the exceptional cases referred to above;
- (b) Whether it had enabled the country concerned to increase the strength of its armaments.

¹ As regards the nature of this evidence, see Chapter XX.

The amount of the said expenditure would be deducted from the Model Statement produced in evidence of limitation, unless the Permanent Disarmament Commission established by a reasoned decision that one or other of those two conditions had not been fulfilled. Should the Commission establish that part of the exceptional expenditure had had the effect of enabling armaments to be increased, the amount of the corresponding expenditure would be maintained in the Model Statement produced in evidence of limitation.

Should certain of the events enumerated above assume such gravity as to threaten the national safety, the provisions of Article 50 of the draft Convention would be applicable.

The Permanent Commission would have to consider and indicate precisely the possible effects of this special procedure should there be an average limit covering several years (see Chapter XIII).¹



¹ NOTE. — Major-General BARBERIS and M. WORBS make the same remark as on page 127 regarding the greatly extended powers that the procedure proposed by the Committee would confer on the Permanent Commission.

Part VI.

INSTRUMENTS OF THE MACHINERY OF LIMITATION AND PUBLICITY.

Chapter XVI.

THE MODEL STATEMENT.

A. FORM OF THE MODEL STATEMENT.

In Chapter III of the present report, the Technical Committee has demonstrated the necessity for a uniform presentation of national defence expenditure by means of an international *Model Statement*.

In Chapter IX, the Committee, when considering whether it was possible to separate the expenditure of the three categories of forces (Land, Naval and Air) and expenditure on land material as also that on naval material, incidentally studied the structure of this Model Statement.

At the risk of repetition, it may be worth mentioning here both the original form which had been given to this statement by the Committee of Budgetary Experts and the conclusions which the examination of the documentation supplied by the States enabled the Technical Committee to reach as regards the final form to be adopted.

**1. The Model
Statement
proposed by the
Committee
of Budgetary
Experts.**

It will be remembered that the Model Statement proposed by the Committee of Budgetary Experts provided for publicity of defence expenditure in the following form:

- (1) A table for each of the three forces.
- (2) Each of the tables for the Land Forces and the Air Forces was divided into five columns representing:

Expenditure on the armed forces stationed at home;
Expenditure on the armed forces stationed overseas;
Expenditure on formations organised on a military basis stationed at home;
Expenditure on formations organised on a military basis stationed overseas.
The total for the above forces and formations.

- (3) The table for the Navy omitted the columns relating to armed forces stationed overseas and formations organised on a military basis stationed overseas.

(4) Each of these tables and columns had to be filled in with detailed figures under four heads:

- I. Effectives.
- II. Transport.
- III. Buildings.
- IV. War material.

**2. Results of the
First Efforts
of the States to
complete the
Model Statement.**

The examination of the documentation showed that, in spite of difficulties, the States have to a large extent succeeded in filling in the thirty-one compulsory items and that only a few of them have filled in the whole or part of the optional columns.

Hence the Technical Committee, while recognising these difficulties, expresses the opinion that the Model Statement as prepared by the budgetary experts is not too detailed in its conception, that it will not prove too complicated in practice, and that its headings, for reasons which differ in each case, will make it possible to present for each State the publicity of its national defence expenditure in correct final form and will permit the verification in detail of the accuracy of the figures providing evidence for purposes of limitation.

It therefore recommends its adoption, with the single modification which has been indicated in Chapter XI (new division of Head IV for the Navy).

For greater clearness, the Technical Committee proposes the adoption of the following order:

- Table I. — Expenditure on Land Forces.
Table II. — Expenditure on Naval Forces.
Table III. — Expenditure on Air Forces.
Table IV. — Total expenditure on the three forces together.

**3. Commentary
on the
Model Statement
proposed
by the Technical
Committee.**

The statement in its final form will thus comprise four main heads for each of the tables I, II and III above:

- Head I. — Expenditure on effectives.
Head II. — Expenditure on transport.
Head III. — Expenditure on buildings.
Head IV. — Expenditure on war material.

Head I—expenditure on effectives—includes under various sub-heads:

(a) Expenditure on pay, wages, salaries and allowances for officers, other ranks (including N.C.O.s) and civilian personnel employed in military departments or formations. It classifies this expenditure according to whether the various personnel normally forms part of military formations, departments and establishments, or not.

(b) Expenditure for meeting the material requirements of the troops, whether intended for effectives with the colours or for creating stocks of provisions, materials and supplies for formations to be mobilised.

Head II includes expenditure on movement and transport. These terms are taken in the widest sense and cover all movement of effectives and material. For the Land Forces, expenditure on the purchase of horses and their upkeep is placed in a separate sub-head.

Head III shows separately the expenditure on the construction of organised defences and the expenditure on construction, upkeep, furnishing and interior equipment of barracks and other buildings.

Head IV comprises expenditure on war material. This head is much the most important. In order to give it a well-defined individuality, the following considerations have had to be taken into account: certain States buy their material from private industry or from foreign Governments. The expenditure incurred by these States for such material is entered *en bloc* in the accounts on the basis of the purchase price. If this expenditure is sufficiently subdivided according to the nature of the material, there is no difficulty in transferring it to Head IV of the Model Statement. Other States have their material manufactured in their own establishments. If these establishments have autonomous accounts—*i.e.*, if, like any other industrial undertaking, they deliver their manufactured materials to the ministerial departments against payment, the expenditure of these departments is calculated according to the purchase price, and again no difficulty arises in transferring it to Head IV.

But the State undertakings do not always possess budgetary and administrative autonomy and, if they do not, their working expenses are provided for by means of budgetary credits, which are usually divided up among numerous items of the accounts. It is with these credits that the State undertakings procure raw materials and the products necessary for manufacture, defray the labour costs, and the pay and salaries of the managing staff, the costs of transport and, in short, all overhead charges of manufacture. These undertakings do not charge the military departments for the material which they manufacture for them. It is therefore the budgetary expenditure enumerated above which must be entered in Head IV of the Model Statement, and rules have had to be provided in order that all the expenses which make up the cost of production (raw materials, wages, overhead charges), and which are scattered throughout the accounts, may be assembled under Head IV. Thus, subject to the very important considerations which have been set forth in the course of the report, the head set aside for expenditure on material would have as nearly as possible the same meaning for all States.

4. Information given as an Annex to the Model Statement. The budgetary experts recognised that the ideal from the point of view of simplicity and clearness would be to have a Model Statement combining in a clear and explicit form all the elements necessary for publicity or evidence as regards limitations of national defence expenditure. But, at the same time, they thought it essential, since the Model Statement in itself was not sufficient to achieve this aim, to attach a certain number of particulars in the form of annexed tables.

The Technical Committee agrees that this is necessary, and expresses the opinion that the special information in question should be regarded, not as mere annexes, but as documents as essential as any of the others to the machinery of publicity and limitation which it wishes to set up.

Nevertheless, for reasons which will be stated in the next chapter, it considers that some of the original tables (Tables A and B) should not be retained in the new system and that the wording of some of the others should be modified.

* * *

A specimen of the Model Statement and of the headings for the entry of the special particulars which the Committee recognised to be necessary appears as an annex to the present part of the report.

B. DATE OF SENDING IN THE MODEL STATEMENT PROVIDING EVIDENCE OF LIMITATION BASED ON THE PAYMENTS EFFECTED.

It has been shown above how the Model Statement should be filled in on the basis of the closed accounts. It is now necessary to determine the date of its despatch to the Permanent Commission. The Committee considered all the possible causes of delay in this despatch and the means of obviating such delay. The main object of its deliberation

was to determine whether the Model Statement could be submitted soon enough after the expenditure is effected to allow it to be ascertained at a comparatively early date whether the obligations as regards limitation had been observed.

After examining the documents furnished, the Committee found that delays in sending in the statements might be due to the following different causes:

1. The Existence of Additional Periods.

An examination of the budgetary systems of thirty-three States has shown that seventeen of them have an accountancy system of twelve months, while sixteen have additional periods of varying length during which payments on account of the financial year may be made. Among these sixteen countries there are seven in which the additional period does not exceed two months and eleven in which it does not exceed three months, so that, in twenty-four out of thirty-three countries, payments on account of the "exercice" may be made within a period of less than fourteen months and in twenty-eight countries within a period of less than fifteen months (see table herewith).

Periods within which Payments must be effected in order to appear in the Accounts of the Financial Year or "Exercice".

States	12-months accounts	Additional period in months											
		1	2	3	4	5	6	7	8	9	10	11	12
1. Albania	×	—	—	—	—	—	—	—	—	—	—	—	—
2. Australia	×	—	—	—	—	—	—	—	—	—	—	—	—
3. Austria	×	—	—	—	—	—	—	—	—	—	—	—	—
4. Belgium	—	—	—	—	—	—	—	—	—	—	×	—	—
5. United Kingdom . . .	×	—	—	—	—	—	—	—	—	—	—	—	—
6. Bulgaria	—	—	—	×	—	—	—	—	—	—	—	—	—
7. Czechoslovakia . . .	×	—	—	—	—	—	—	—	—	—	—	—	—
8. Denmark	—	×	—	—	—	—	—	—	—	—	—	—	—
9. Estonia	×	—	—	—	—	—	—	—	—	—	—	—	—
10. Finland	—	—	×	—	—	—	—	—	—	—	—	—	—
11. France	—	—	—	—	×	—	—	—	—	—	—	—	—
12. Germany	—	1½	—	—	—	—	—	—	—	—	—	—	—
13. Greece	—	—	—	—	×	—	—	—	—	—	—	—	—
14. Hungary	×	—	—	—	—	—	—	—	—	—	—	—	—
15. India	×	—	—	—	—	—	—	—	—	—	—	—	—
16. Irish Free State . . .	×	—	—	—	—	—	—	—	—	—	—	—	—
17. Italy	—	×	—	—	—	—	—	—	—	—	—	—	—
18. Japan	—	×	—	—	—	—	—	—	—	—	—	—	—
19. Latvia	×	—	—	—	—	—	—	—	—	—	—	—	—
20. Lithuania	×	—	—	—	—	—	—	—	—	—	—	—	—
21. Netherlands	—	—	—	—	—	—	—	—	—	—	—	—	×
22. New Zealand	×	—	—	—	—	—	—	—	—	—	—	—	—
23. Norway	×	—	—	—	—	—	—	—	—	—	—	—	—
24. Poland	—	—	—	×	—	—	—	—	—	—	—	—	—
25. Portugal	—	1½	—	—	—	—	—	—	—	—	—	—	—
26. Roumania	—	—	—	×	—	—	—	—	—	—	—	—	—
27. South Africa	×	—	—	—	—	—	—	—	—	—	—	—	—
28. Spain	×	—	—	—	—	—	—	—	—	—	—	—	—
29. Sweden	—	—	2½	—	—	—	—	—	—	—	—	—	—
30. Switzerland	—	—	×	—	—	—	—	—	—	—	—	—	—
31. U.S.S.R.	×	—	—	—	—	—	—	—	—	—	—	—	—
32. United States of America	×	—	—	—	—	—	—	—	—	—	—	—	—
33. Yugoslavia	—	—	—	—	—	×	—	—	—	—	—	—	—
33 States	17	5	3	3	2	1	—	—	—	—	1	—	1

The Committee is well aware of the advantages that would be obtained by generally introducing the twelve-months accountancy system. It was, however, obliged to recognise that such general introduction would raise great difficulties and that the question could not be settled in the process of drawing up the Convention for the Limitation of Armaments.

The Committee is convinced, however, that, if the unduly long additional periods existing in some countries are maintained, it would be difficult to obtain juridical evidence of the limitation of expenditure on the basis of the final accounts at a sufficiently early date.

The figures and facts examined by the Committee prove that, in many cases, the States concerned could perfectly well close their budgetary accounts within a comparatively short period (two to three months) after the end of the financial year. The existence of long additional periods (sometimes of as much as twelve months) would seem to be due rather to certain administrative traditions and customs than to essential and imperative technical requirements. There is, indeed, in a number of countries a marked tendency to reduce the additional periods. Thus, in Portugal, this period was reduced in 1930 from twenty-four months to one and a-half months. In France, the Finance Minister announced in December 1932 that the Government was contemplating the reduction of the additional period on the occasion of the reform of the public accountancy system.

Since it would be more reasonable and advantageous to secure some change in administrative customs than to accept considerable delay in the submission of juridical evidence showing that States have fulfilled their undertakings in regard to the limitation of expenditure on armaments, the Committee wishes to recommend the reduction of the additional periods to two or three months. Such a reduction, while enabling the accounts to be promptly prepared, would provide for the rapid publicity of expenditure.

**2. Methods adopted
by the
Administrations
in preparing
Final Accounts
for Audit by the
Higher Auditing
Authorities.**

In some countries, this work takes from two to six months. During this period, the administrative authorities draw up the accounts and prepare them for examination by the Courts of Audit or other higher auditing bodies. The accounts are checked, not only from the accountancy point of view, but also in respect of their conformity with the budgetary laws. This is extremely detailed work and requires much time. The time taken depends to a large extent on the audit carried out during the execution of the budget. The Committee considers that the possibility of reducing this period is a matter of real interest, since it might affect the fixing of the date for sending in the statement.

In view of the above, the Committee has reached the conclusion that the auditing of the accounts, even for countries having additional periods, might take place comparatively soon after the end of the financial year. It is very much to be desired that the time required for this auditing should not exceed five months. If this were the case the seventeen countries without additional period would have the whole of this time to prepare their final accounts, while the eleven countries with an additional period of one to three months would have four to two months at their disposal. The time-limit of five months could therefore hardly be observed unless the additional period was shortened to three months at the most.

**3. Audit of the
Final Accounts
by the
Higher Auditing
Authorities.**

In some countries, this work at present takes from four to six months. It may even happen that, as a result of delays in the drawing-up of accounts by Ministers, the audit may take much longer.

In any case, in twenty-six countries considered by the Committee in this connection, the reports of the Courts of Audit or other higher auditing authorities, or the accounts themselves when they are drawn up by these bodies, are submitted within the following periods after the end of the budgetary year:

New Zealand	1½ months	Japan	}	11 months
Sweden	2½ months	Spain		
United States of America	5 months	Germany	}	12 months
		Yugoslavia		
South Africa	} 7 months	Poland		14 months
Austria		India		15 months
Italy		Denmark		19 months
Albania	} 8 months	France		22 months
Bulgaria		Portugal		24 months
Czechoslovakia		Norway		30 months
Hungary				
Australia	} 9 months			
Irish Free State				
Latvia	} 10 months			
Roumania				
United Kingdom				
U.S.S.R.				

In some countries, these periods are legal periods which are not observed.

The Committee thought it should endeavour to ascertain the nature of the audit carried out by the higher auditing authorities in view of the different meaning attached thereto in different countries. In some countries, the accounts are prepared by the Court of Audit itself. In this case, they can be produced within five or six months. In other countries, the general accounts are drawn up by central authorities. Such is the case in Denmark, Germany, Norway and Switzerland, where the accounts are published within periods of four to seven months after the end of the financial year. In France, the law prescribes that the bill for the final regularisation of the budget of the last closed "exercice" must be submitted, and the Department's account in support thereof must be produced, at latest at the opening of the ordinary session of the Chambers following the close of the "exercice". These legal time-limits are not at present observed.

The Courts of Audit are called upon to give the Parliaments, after such publication, a guarantee that the provisions of the budgetary law have been faithfully observed. They point out any irregularities they have ascertained, but they have no power to change the figures of the accounts. In these cases, the Committee thinks that it might be advisable merely to require the production of the published accounts without waiting for the subsequent production of the results of the audit by the higher auditing authorities, which, in the countries in question, require from twelve to thirty months from the end of the financial year; from the point of view of the Convention, this is too long.

On the other hand, the Committee cannot but recognise the value of the guarantee of authenticity given to the accounts by the audit of higher auditing authorities of an entirely independent character. Hence, the Committee thinks that it is possible to be satisfied with the published accounts, on condition that the results of the audits are produced in due course.

The Committee is inclined to think that, in some cases, part of the delay in rendering the accounts is due to the fact that Governments do not need to hasten their preparations for drawing up the final accounts, because they merely require to submit them to Parliament at the moment when the draft budget is being prepared for the second year following that for which the account is made up. Thus in Denmark, the reports of the State auditing authorities must be submitted during the second ordinary session of Parliament after the end of the financial year. In several countries, and more particularly in the U.S.S.R. and Yugoslavia, the law provides that the accounts must be submitted to Parliament with the draft budget for the second succeeding year. In such cases the delays

are not due to technical reasons, and it may be hoped that it will be possible to submit the accounts at an earlier date in order to satisfy the requirements of the Convention.

**4. Approval of the
Final Accounts
by the Competent
Legislative
Authorities.**

The Committee is of opinion that this is primarily a political act, since the supervision is exercised by Parliaments over the manner in which the responsible ministers have executed the budget within the limits of the expenditure authorised. On the other hand, Parliaments do not as a rule proceed themselves to an audit of the final accounts. They consider rather the administration of the credits on the basis of the audit and observations of the higher auditing authorities. Furthermore, it should be borne in mind that legislative supervision is sometimes exercised after a considerable lapse of time, which may amount to several years.

The Committee, while recognising the importance of the legislative approval of the final accounts, is nevertheless of opinion that this act has no direct connection with the authenticity of the figures, which is essentially the outcome of the audit of the higher auditing authorities.

* * *

The Committee considers that it would in practice be possible to supply, within a maximum period of fourteen months after the end of the financial year, Model Statements drawn up in accordance with the final accounts published and in most cases audited by the higher auditing authorities. But, in certain cases, the results of the audits will only be produced after this interval. The length of the time-limit for the production of the Model Statement presents drawbacks which have already been pointed out. Hence, the Committee proposes to obviate them by organising a system of additional publicity which might be effected more rapidly (see Chapter XIX).

Chapter XVII.

SPECIAL PARTICULARS ADDED TO THE MODEL STATEMENT WITH A VIEW TO LIMITATION AND PUBLICITY.

I. INTRODUCTION.

In 1927, the Budgetary Experts proposed that three tables ¹ should be added to the Model Statement showing:

Table A. — The division of the pay of reservists as between that paid outside periods of training to reservists not employed and that paid during periods of training to reservists called up.

Table B. — The division of expenditure on shipbuilding as between new construction on the one hand and maintenance and repairs on the other.

Table C. — The total amounts outstanding on block credits granted for more than one year.

The Committee of Experts of 1930-31, which continued the work of the first Committee of 1927, further considered that, in order to fill up a possible gap in the machinery of limitation, the various countries should furnish the figures of their "credit purchases" and decided to add to the three annexed tables mentioned above a fourth—viz., "*Annexed Table D*":

"Amount of credit purchases or deferred payments in respect of goods delivered or services rendered, in cases where the due dates of payment are later than those customary in contracts of the same kind which do not provide any special credit facilities."

Annexed Table E.

As, moreover, the Committee of Budgetary Experts attached importance to the question of State subsidies to, and participations in private armament undertakings, it provided that, if certain subsidies were granted to private undertakings for purposes other than national defence—for instance, for social purposes—they would not be included in the statement, but, in order to facilitate supervision, States should specify in a special publicity table the reasons why such subsidies had been excluded from the Model Statement.

Annexed Tables F and G.

The Committee of Budgetary Experts also provided for two special tables, one of which (*Table F*) was to show expenditure on pensions and the other (*Table G*) the principal modifications introduced each year into the provisions of laws or regulations capable of reacting on the amount of national defence expenditure.

The various annexed tables differed therefore greatly in respect of their origin, importance, content, form and even of the principle on which they were based. It was necessary to examine them one by one in the light of the documentation submitted by States.

¹ In 1927, provision had, indeed, been made for another table in which would be entered the effectives shown in the budgets. As this statement was rendered unnecessary, however, by the special provisions in the Convention relating to effectives, it was not mentioned in the 1931 proposals.

It may, however, be pointed out at this stage that, although publicity was the object of all seven annexed tables proposed by the Budgetary Experts, three of them—Tables C, D and E (and especially Table D)—were directly connected with the machinery for the limitation of expenditure.

II. EXPENDITURE ON RESERVES.

Annexed Table A was worded as follows by the 1930-31 Committee of Experts:

- (1) Remuneration outside periods of training of personnel not employed;
- (2) Remuneration during training of reservists called up.

The Technical Committee, when discussing this table, found itself at the outset faced by two difficulties requiring settlement.

The first was the question of the meaning of the word "reserves".

A number of entirely different views on the subject were put forward and supported in the documents submitted to the Committee.

In the United Kingdom and in almost all the Dominions, there are certain military institutions, firmly rooted in tradition, which have nothing or very little to do with the Regular Army. They include the Territorial Army in the United Kingdom, the Auxiliary Air Force, the University Air Squadrons, the Militia Forces in Australia and the Auxiliary Forces and Territorial Forces in India.

In these countries, such institutions can scarcely be regarded as "reserves" of the Regular Army; in fact, only men who have previously served in the Regular Army and are under definite obligations are regarded as forming part of the "reserves" of that Army.

For these reasons, neither the United Kingdom, nor India, nor Australia, have shown expenditure on the Territorial Army and similar organisations in Annexed Table A.

The United States of America, on the other hand, regarded their National Guard as a reserve formation, and showed in Annexed Table A expenditure incurred by the Federal Government for this body. Similarly, the United States included in the same table expenditure incurred by the Federal Government for the Organised Reserves and for the Citizens' Military Training Camps, which are military institutions having to a still less extent the character of "reserves", in the sense in which this term is used in the United Kingdom.

Certain countries treated as reserve armed forces such institutions as rifle clubs, physical culture associations and the Red Cross.

Lastly, it may be noted that Switzerland has been led to consider the question whether she should not enter all expenditure on the personnel of her Army under the sub-head relating to "reservists". This is of course due to the very special position of an Army, such as that of Switzerland, which has no permanent troops or cadres. In document Conf.D.125, of June 15th, 1932, moreover, Switzerland stated the difficulty or even impossibility of bringing her Militia Army under the general régime of the future Convention.

It would thus appear necessary to settle an important preliminary question which is outside the competence of the Technical Committee; this question comes within the province of the Committee on Effectives, whose duty it would be to give a definition of "reserves" and "reservists".

There is another preliminary difficulty which the Technical Committee is not in a position to settle.

Nearly all the Powers possess officers of various categories who, though not entirely on active service, are nevertheless not definitely retired.

There are, for instance, in the United Kingdom and in some Dominions, in Sweden, Norway and Belgium, half-pay officers who, though generally speaking they do not perform any active duties, cannot nevertheless be regarded as fully retired.

The French Reserve *Cadre* contains over 940 general officers, a fact which is in itself sufficient to demonstrate that the "pay" of these officers, which is moreover calculated at the same rates as pensions, should be regarded mainly as a "pension"; the French delegation was therefore justified in deducting this expenditure from the Model Statement and in excluding it from Annexed Table A, Article 1, although a proportion of these general officers may be called up from time to time. But can the same be said in the case of "officers on long leave," of "unattached officers", and "officers on half-pay"?

An examination of the case of the "retired officers", for whom an expenditure of \$20,113,145 is entered in the War Department budget of the United States of America for 1930, will show that this expenditure is included in Annexed Table A because, in the opinion of the United States delegation, these officers should be regarded, not as definitely retired, but rather as officers always ready to answer any summons (although thirty-three of these officers were already serving in 1865).

There are, moreover, in almost every Army other categories of reserve and supplementary officers, etc., who are not ex-officers, who have served with the colours. These include young men who, during their period of higher education, have received appropriate military training (Czechoslovakia, France, Poland, Roumania, United States of America, etc.) It should be noted that this last category of reserve officers frequently contains doctors, pharmacists and veterinary surgeons.

The remarks regarding officers apply in certain Armies also to non-commissioned officers and men. It is not possible to decide what expenditure should or should not appear in Annexed Table A unless we have first defined the exact position of officers and men, who, after service with the colours, are still under certain military obligations. The Committee felt some doubt in the case of the *Wartegelder* in Germany and the *Wachtgeld* in the Dutch Indies, etc., and also regarding the Association of Retired Soldiers in Japan, which receives from the Government a subsidy of 250,000 yen as a contribution towards its administrative expenses.

These examples will show how necessary it is, should special information be desired concerning reserves, for the Committee on Effectives to give a decision as to which categories of officers and men, in the case of each separate Power, should be regarded as "reserves" and which categories should be regarded as "definitely retired".

After an examination of the question from a strictly budgetary standpoint, it would moreover appear doubtful whether Annexed Table A can at present be satisfactorily filled in.

Is it, in the first place, advisable to extend the wording of the two items of Annexed Table A so as to include *all* expenditure on reserves, and not merely the "remuneration" of reservists?

In the case of certain Powers such extension might be possible; the United States of America, for instance, could quite easily specify all expenditure (*i.e.*, all *Federal* expenditure) in the "appropriation" for the Militia Bureau, including arms, clothing, barracks, etc., for the National Guard; but this would appear to be almost impossible, for instance, in the case of the United Kingdom, for the Territorial Army, since vote 2 covers practically pay only, whereas "stores supplies, etc." are paid for out of votes 6 to 9 of the "Army Estimates" and cannot be distinguished from those intended for the Regular Army.

It should also be remembered that the Experts' Committee of 1927, when it expressed the desire to receive particulars of expenditure on "reserves", wished to make public the expenditure incurred by the various Powers on calling up and training reservists; for this reason, that Committee thought it necessary that expenditure specifically incurred in calling up reservists should receive special publicity.

It is clearly very difficult accurately to identify the various items of expenditure directly arising out of the calling-up of reserves; very often such expenditure cannot be separated from the general administrative expenditure. There are, however, certain points which will remain for discussion, even if we assume that the Committee decides that it is inadvisable to endeavour to ascertain *all* expenditure upon "reserves", in order to show it in Table A. These points are as follows:

(a) It is reasonable to include in the expenditure arising out of the calling-up of other ranks the assistance granted by various Powers to the families of reservists called up, more particularly as in some cases—*e.g.*, in Belgium—this assistance is deducted from the remuneration which in theory is granted to the soldier who has been recalled. It may be pointed out, moreover, that, whereas in Poland and Czechoslovakia allowances to families of reservists called up appear in a special chapter of the budget (117,851 zlotys and 4,468,621 crowns respectively), in the case of the majority of Powers assistance of this nature either is not granted or is not shown in special chapters, so that, if the expenditure were shown under a special heading in Annexed Table A, it could not be checked.

(b) A more difficult problem is that arising out of schools for reserve troops. It has three different aspects, corresponding to the three different kinds of schools—those for officers, non-commissioned officers and men respectively. Very different interpretations have in fact been given to Annexed Table A on this point.

As regards reserve officers, it often happens, as has already been seen, that young men at the universities (particularly those studying engineering and medicine) who follow certain special courses obtain a commission in the Reserve. What meaning must be attached to the phrase "expenditure on such schools"? Is it to include salaries of military instructors or merely additional allowances? Allowances given to the students? Or other expenditure such as that on travelling? Should expenditure on buildings and material be included?

In the case of non-commissioned officers and men, schools for reserve personnel are comparatively rare; generally speaking, such personnel is simply incorporated with the active personnel and takes part in the drill, etc.; some Powers, however, possess schools, particularly for certain specialists; these schools raise the same difficulties as those arising from schools for reserve officers.

It is in any case difficult to distinguish between schools for military reserve personnel and ordinary instruction courses, as these schools are sometimes attended both by active and reserve

list personnel and there is great difficulty in separating the expenditure incurred in respect of the latter.

It would therefore seem preferable not to include in the Annexed Table expenditure on such schools, but to show only expenditure for reserve personnel attending them and to agree that other expenditure (training staff, buildings and material, etc.) should be shown in the relevant sub-heads of the Model Statement.

(c) A third point for discussion is whether the term "remuneration" which appears in the Annex should be understood as meaning only "pay, salary and allowances" or should include the "maintenance" of reservists when called up.

France is the only Power which has given to the wording the latter interpretation, which for the following two reasons appears to be a reasonable one:

(a) This procedure gives a more accurate idea of the expenditure incurred on the training of reservists;

(b) Certain Powers pay reserve personnel at a higher rate in view of the fact that such personnel have to bear either entirely or in part their own maintenance expenses; the sum shown in Annexed Table A, if it referred only to "remuneration", would thus become very elastic in its meaning and would no longer meet the requirements for which the table was drawn up. This difficulty would clearly be completely overcome if, under point 2, were shown "remuneration", including "maintenance".

An examination of the material submitted, however, brings to light a serious difficulty; in the case of nearly every Power (Belgium, Italy, Japan, the Netherlands, Poland, Roumania, U.S.S.R., etc.) it is not possible to check expenditure on "maintenance" of reservists called up against any chapter of the closed account; if, therefore, the sum shown in Table A were to include both "remuneration" and "maintenance", it would be of doubtful value.

(d) Closely connected with this problem is another; is it possible to check the figures shown in the second heading of Annexed Table A by means of the closed accounts of the various Powers?

The reply furnished by the material submitted in this respect is entirely negative.

Out of twenty-seven dossiers examined, in only one case (Yugoslavia) did the amount shown in Annexed Table A correspond exactly with a chapter in the closed accounts. Item 567 of the Closed Account—"Pay and various allowances for reserve officers and sergeant-majors called up for military-training"—is transferred bodily to Article 2 of Annexed Table A. But, if not only officers and non-commissioned officers but also men had been called up, the expenditure on the latter could in all probability not be shown separately; similarly, in the case of other Powers, such expenditure can only be shown separately on an approximate basis and with the help of internal accounts.

It may therefore be stated that examination of the material received shows that the second part of Annexed Table A can only be filled up with the help of figures *which cannot be checked by the closed accounts*.

In these circumstances, would it not be better to omit this item?

Item 1 is a little easier to check; and such a check can, for instance, be carried out in the case of the United Kingdom, Sweden and certain other Powers.

Nevertheless, what information is to be gained from this item?

That the United Kingdom, for instance, in 1929-30 expended £2,228,174 on reserve personnel of the Regular Army which was not called up. It might be asked whether, instead of showing the £2,228,174, it would not have been more accurate to show the £4,438,214 in respect of the Territorial Army, which is in fact a second reserve; in any case, after reading this figure, we are left with the impression that there is no real use in the item and that the figures shown are entirely devoid of importance.

We thus reach the conclusion that it would be better to do without an annexed table which serves no useful purpose and in all probability would only give rise to confusion.

This conclusion is strengthened by two further considerations.

In the first case, the Model Statement contains a sub-head D— "Persons undergoing preparatory military training, reservists and reserve organisations"—which gives an idea of the expenditure incurred by the various Powers on such "reserves"; furthermore, this sub-head, which has been drawn up in rather wider terms, covers in fact other expenditure which is more or less of the same kind. Furthermore, as in a large number of cases no expenditure is incurred for persons undergoing preparatory military training or such expenditure is not regarded as military expenditure, the result reached was that sub-head D gave the same total as Annexed Table A, which was thus a mere repetition.

It must also be borne in mind that, in 1927, when the Preparatory Commission was sitting, there was a particularly keen discussion on the question of "trained reserves" and that it appeared more important than is the case to-day to use an indirect method—namely, that of expenditure—to ascertain the extent of the "reserves" maintained by each Power. Now that

the Conference is developing along new lines in connection with the period of service, this question becomes of considerably less importance.

In short, the Technical Committee is of the following opinion:

(a) If Annexed Table A is to be filled up, it is first necessary to ask a competent committee, such as the Committee on Effectives, to define: (a) what armed forces should be considered as "reserves"; (b) what officers, non-commissioned officers and men should, in the case of each separate Power, be regarded as occupying "reserve appointments"? We must face the FACT THAT SUCH DISTINCTIONS ARE VERY DIFFICULT TO DRAW, that in all probability the dividing line will be to a large extent arbitrary, and that it is difficult to see how in practice it will be possible to ensure that this dividing line is respected;

(b) If we assume that the required definitions can be supplied, it would still remain true that the figures shown in Annexed Table A cannot be checked in any way, and would thus be of very little value even for purposes of publicity;

(c) The annexed table is, to some extent, a repetition of sub-head D in the Model Statement and would not be of any particular value. Furthermore, it is probable that the information which should appear therein is no longer considered so important as was the case in 1927.

Such being the case, the Committee considers that Annexed Table A should be omitted.

III. SPECIAL INFORMATION RELATING TO NAVAL MATERIAL.

When dealing with the subdivision of Head IV in the statement regarding Naval Forces into two sub-heads L and M,¹ it was found that the subdivision into "shipbuilding" proper and "arms and ammunition" was unsuitable and that it was preferable to replace these two items by "new construction" ("shipbuilding," "arms and ammunition") and "maintenance" ("ships," "arms and ammunition") respectively.

Annexed Table B as proposed by the Committee of Experts in 1930-31 distinguished between expenditure on new shipbuilding and expenditure on the maintenance of vessels.

It was, however, found to be somewhat difficult to separate expenditure on shipbuilding from that on arms and ammunition. When, moreover, a naval programme is drawn up and taxpayers are informed of the price of a new vessel, it is clear that what chiefly interests them is the cost of the "complete" vessel, including guns, ammunition, torpedoes and all the equipment.

It would therefore appear that the really valuable information would be shown in the Model Statement itself provided that sub-heads L and M are given the new meaning proposed. Annexed Table B could then be omitted.

IV. BLOCK CREDITS.

The Committee of Budgetary Experts proposed to attach to the Model Statement a Table C with the following heading: "Statement of the amount outstanding at the end of the financial year of block credits voted for expenditure in more than one year."

Failing clear instructions, the different Powers interpreted this table in the most various ways. Certain States, for example, entered amounts outstanding from credits voted for several years outside the budget, whereas others gave the amounts of credits carried forward from one year to another irrespective of whether the carry-forward had been re-authorised by Parliament or not. As, moreover, the legal implications of the voting of a credit of course vary greatly from country to country, certain States have shown the difference between the amount of the credit carried forward and commitments entered into in respect thereof, while others stated the difference between the amount of the credit carried forward and the orders for payment issued; others, again, showed the difference between the credits carried forward and payments actually made. The difficulties encountered by the various Powers impressed upon the Committee the necessity for a clear definition of the meaning and scope of the proposed table.

¹ See page 102 and following pages.

In order clearly to define what this table is meant to embody, a number of essential distinctions should first be drawn.

The most typical case of block credits are credits dealt with in a special account—*e.g.*, the credits for the organisation of the frontiers in France and Belgium; once the authorisation of expenditure has been given, it remains valid until the financing of the work is completed. In such cases, it is important to be informed, at the end of each year, of the difference between the original amount of the block credit and the payments already made—that is to say, what proportion of the block credit will remain available during subsequent years for financing the work dealt with in the special account.

It is also possible that a block credit may be granted with the proviso that the total amount shall be split up between a number of successive budgets in yearly instalments. It is important to be informed at the end of each year of the difference between the block credit and the instalment or instalments already shown in the budgets.

But there are also other forms of block credits. The system of the United States of America, for example, includes continuing credits which may be expended over a number of years. In this case also, it is important to be informed at the end of each year of what proportion of such credits remains available.

It is already known that, in almost all countries, there are also carry-forward credits—that is to say, credits voted at the beginning of a given financial year which may be expended in the course of the following “exercice” or “exercices” in so far as they have not been exhausted during the financial “exercice” in which they originated. In certain cases such credits may be carried forward automatically; in other cases, on the contrary, they cannot be carried forward without a new authorisation from Parliament. Even if no distinction is drawn between the rules governing carry-forward, it is also important to be informed at the end of each year of the difference between the amount of the carry-forward credit voted and expenditure already effected against this credit in the course of the year—that is to say, of the amount outstanding to be transferred to the following financial year or years.

In certain countries (such as Italy) where the voting of the credit limits the commitments which may be entered into in the course of a given year, the difference between the credit and the commitments entered into during that year is in principle automatically cancelled; but the difference between commitments entered into and payments actually made is transferred to a residuary account. It is, moreover, possible that the system in such countries also includes carry-forward in the strict sense of the term—that is to say, that the difference between the credit voted at the beginning of the year and the commitments entered into is not automatically cancelled and that the difference between the total amount of the commitment credit and the payments actually made during the financial “exercice” is transferred to the residuary account. Even if no distinction is made between these two cases there can be no doubt that that part of the credits which is transferred to the residuary account at the end of the “exercice” constitutes a fund available for use in the course of one or more years and, such being the case, it is also necessary—for publicity purposes—that the amount of such residuary credits should be known.

In certain countries, however, Parliament authorises the defence services to enter into commitments during a given year on the understanding that the expenditure involved shall only be paid out of the financial provision of the following year or years. Such commitment authorisations are to some extent analogous to commitment credits as defined above; the two must not, however, be confused. Whereas commitment credits at the same time authorise payment, commitment authorisations must of necessity be succeeded in the following year by a special payment authorisation. This should preclude the possibility of deliveries being made during the year in which the commitment authorisation is granted. It is nevertheless true to say that commitment authorisations make it possible to conclude contracts and are therefore a reliable pointer to the financial effort which will be devoted to armaments in the future. No doubt, the payments corresponding to the commitments entered into will be included in the Model Statement for the following year or years; it is nevertheless important to mention in the Model Statement for each year all commitment authorisations in respect of that year, as such commitments represent, as it were, potential armaments.

These particulars relating to residuary credits and commitment authorisations are important:

(1) Because, when the Convention comes to be signed, it will be impossible to overlook the fact that certain Powers have available credits against which the Governments may have entered into commitments which will result in deliveries and consequently in payments;

(2) Because, if the termination of the Convention could be anticipated, it would be possible, merely by entering into commitments without making payments, to procure a certain quantity of armaments which might be almost ready for delivery towards the end of the Convention and which might be paid for immediately after delivery—that is to say, immediately after the Convention expires.

The latter consideration emphasises the importance of a Convention which would have an unlimited duration—*i.e.*, which would be renewable by tacit consent at the end of the successive periods laid down therein, in accordance with Article 57 of the draft Convention. In any case, the Committee considers it its duty to point out that the efficacy of limitation will increase in direct ratio to the length of the period for which the Convention is concluded.¹

In the event of the Convention's being concluded for an unlimited period, these foregoing particulars would still have their importance from the point of view of publicity and also from that of the information necessary for the revision and adjustments for which the draft Convention provides.

Lastly, the Committee considers that, in the same connection, it would be useful to be kept informed every year of the balances at the disposal of autonomous establishments and capable of being used for further capital outlay or for the constitution of stocks.

The Committee therefore considers it desirable that the contracting parties should be asked to give information on the following points:

(a) The difference between the initial amounts of the block credits voted for several years and any part of such credits already entered in the budgets, including the budget for the year to which the Model Statement refers;

(b) The difference between carry-forward credits—that is to say, credits which may be used for meeting expenditure during the year in question or subsequent years—and payments in respect of such credits shown in the accounts for the former;

(c) Authorisations to enter into commitments granted apart from credits voted in the budget of the year to which the Model Statement refers;

(d) The difference between the block credits contained in special accounts and payments already made against such accounts, including those made during the year in respect of which the Model Statement has been compiled, together with all other credits available in special accounts;

(e) The credit balance of autonomous establishments remaining at the disposal of those establishments.

If this proposal is adopted in principle, very precise instructions will have to be drawn up in order to define the exact nature of the particulars to be inserted. These instructions will have to make it clear that, in order to determine what proportion of funds previously

¹ NOTE. — In this connection, Major-General BARBERIS and M. WORBS feel bound to emphasise the inefficiency of the system proposed in the present report in the event of the Convention being concluded for a short period only.

authorised still remains available, all countries should deduct the amount of payments made up to the date under consideration from the original amount of the funds in question.

In this way, the meaning conveyed by the particulars produced by the various countries will be as nearly identical as possible.

Should the closed accounts or other published official documents not give these particulars, it would be advisable to recommend the Powers concerned to publish them in order to facilitate the task of the organs of the Permanent Commission which will have to check the Model Statements.

V. DEFERRED PAYMENTS AND CREDIT PURCHASES.

1. General Considerations. Work of the Committee of Experts on Budgetary Questions.

The limitation of expenditure applies to payments. If the payments are made within a fairly short period, they are almost contemporary with the services rendered and the deliveries effected, so that, by the limitation of payments, actual armaments are limited at the same time.¹

But it always happens that, at the end of the "exercice", there are a certain number of payments in arrear, the amount of which is proportionately small if there is an additional period of long duration. The existence of payments in arrear to a small extent is quite a normal phenomenon and one which is shown by experience to recur year after year. If this small amount of payments is of the same volume each year, the limitation of payments rigidly restricts, not the armaments obtained during the year, but those obtained during a period commencing some time before the beginning of the "exercice" and ending some time after the end of that period.

But if for any reason States deferred certain large payments for a relatively long period, and particularly if they had recourse to credit purchases—that is to say, if, under the contracts for supplies and constructions, they obtained terms of payment considerably longer than the terms of delivery—that would create a situation requiring special consideration.

The Budgetary Experts even held that the development of orders for goods or services on the one hand and of payments on the other hand might be influenced or disturbed by the very fact of the restrictions established by the Convention, and that, for this reason, payments might be postponed, not by accident, but deliberately.

In such cases, payments deferred during a relatively long period and payments in respect of credit purchases may not appear in the closed accounts for the year or for a number of years following the services rendered or the delivery effected. It would thus be possible for a State, during a given year, to remain within the limit fixed for the annual amount of payments, while still procuring, during that year, armaments exceeding in value the amount of that limit.

Such a possibility cannot be allowed. The Budgetary Experts, therefore, after showing that normal payments in arrear did not influence the effectiveness of limitation, provided for the inclusion in the Convention of the following contractual clause:

"The High Contracting Parties undertake not to employ the system of credit purchases or any other system of deferred payments in such a way as to increase their armaments, and in particular their war material, beyond the level which the Parties would have been able to attain under the Convention if the payments had not been deferred."

This clause aimed at preventing the amount of payments entered in the Model Statement in one year and the value of the armaments obtained and not paid for during that year from exceeding the limit allotted to each State for its expenditure.

¹ See Chapter IV.

In order to obtain evidence that such an obligation was being carried out, the Experts contemplated two methods:

(a) The insertion in the Model Statement itself, in addition to the payments, of the value of the armaments obtained and not paid for at the end of the year;

(b) The production of a table in which States would indicate the value of the armaments obtained during the year and not paid for at the end of the year.

The Budgetary Experts of 1930-31 were anxious that authenticated figures of payments extracted from the closed accounts should not be mixed up in the Model Statement with estimated figures of expenditure which for the most part do not appear in the public accountancy documents; they therefore recommended the second method, and suggested a publicity table with the following title:

"Statement of the amount outstanding at the . . . (date) in respect of purchases on credit or deferred payments relating to goods delivered or services rendered, in cases where the due dates of payment are later than those customary in contracts of the same kind which do not provide any special credit facilities".

In the opinion of the Experts, the publicity suggested should take place within a comparatively short period, in any case shorter than the period allowed for the sending of the returns of expenditure. They considered that the return of credit purchases and deferred payments might be sent in at the same time as the return of expenditure, the former return referring, however, to a more recent twelve-month period than the latter.

The Committee of Experts considered that the practice of credit purchases and deferred payments might be of special importance in cases where certain Governments obtained credits from other Governments for the manufacture of war material. It therefore proposed that, in order to make the above-mentioned contractual undertaking more effective, the Conference should consider whether it would be desirable for the parties to undertake to refrain from the following proceedings, so far as they may have an influence on the efficacy of limitation:

(1) The grant of credits to other States in order to enable the latter to purchase armaments; and

(2) The grant of assistance to enterprises in their own countries such as would enable these enterprises to deliver war material on credit to foreign States.

The Committee of Budgetary Experts confined its consideration more particularly to purchases made from private firms, and reached the conclusion that, since the deferred payment of a sum will have to be effected sooner or later, it will not in practice be possible to have recourse indefinitely to credit purchases. A time will always come when the accumulation of the debts of the State will lead, during a given year, to payments which cannot be effected without danger of exceeding the fixed limit. Thus the fear of exceeding the limit should restrict the possibility of States having recourse to credit purchases, with the exception, naturally, of cases where they can anticipate the end of the Convention.¹

**2. Results of the
Examination of the
Documentation
by the Technical
Committee.**

The Technical Committee, in the light of the documentation, has endeavoured to form an opinion as to the value and scope of the Budgetary Experts' recommendations.

Of twenty-seven Powers whose replies were examined, twenty-one made the entry "Nil" in the table relating to credit purchases. They asserted that they did not have recourse to credit purchases and payments deferred beyond the usual terms. It was noted that, in the case of Germany, the payment of certain expenditure for the year 1930 was postponed for lack of funds to 1931 (see Summary, B), and that, in the case of Australia, wages unpaid at the end of the year were transferred to corresponding "suspense funds" ("unclaimed militia pay; unpaid salaries 1929-30"). But in these cases they were not real credit purchases such as those considered by the Experts, but "suspense funds".

¹ See reservation on page 153.

Six Powers gave figures in the table relating to credit purchases:

(a) The United States of America inserted a figure in the table as the result of an erroneous interpretation, and, after the discussion of the documentation supplied by that country, it was acknowledged that the United States did not need to insert any figure.

(b) Norway gave a figure, also as the result of an erroneous interpretation.

(c) Yugoslavia gave the amount due from the Ministry of the Army and Marine to the Ministry of Communications for transport in 1929-30. Yugoslavia stated that, "during the budget year 1929-30, there were no credit purchases which would have contributed to the increase of supplies of material, without involving any expenditure".

(d) Roumania showed an amount of 12,000,000,000 lei divided into ten yearly amounts of 1,200,000,000 lei each, plus interest. This represents part of the yearly expenditure on the General Staff's investment plan and programme. The Roumanian delegation stated that in 1930-31 no payment was made, and that "the credits relating to this programme will be voted together with the budget for each of the years over which the programme is spread".

(e) Poland did not give any figure. An examination of the documentation showed, however, that the system of credit purchases or deferred payments, as understood in the Experts' report, is practised in Poland, but in 1929-30 there were no deliveries in respect of which payment was not made.

(f) The U.S.S.R. gave the figure of 10,340,000 roubles as the "liability of the People's Commissariat for Military and Naval Affairs in respect of orders abroad".

It thus seems that the system of credit purchases is employed to-day by only four of the twenty-seven Powers whose documents were examined. It is, moreover, possible that the absence of detailed instructions for interpreting the headings of the publicity table led to confusion.

The examination of the documentation supplied therefore did not furnish the Committee with a sound basis on which to form an opinion.

With a view to proposing definite solutions to the Conference, the Technical Committee first endeavoured to fix the conditions under which States might have recourse to deferred payments and credit purchases.

It should be at once observed that credit purchases and deferred payments may relate, not only to war material proper, but to all supplies, and also to services rendered by individuals and public and private firms and establishments. The problem has therefore been considered in all its aspects by the Committee.

3. Purchases from Private Firms. So far as purchases from private firms are concerned, it should be observed that any delay in payments is costly for a State.

The latter, like any debtor, must pay interest in respect of the delay in settlement of its debt, and compound interest if payment is not made within one year. When a State buys on credit, the prices are necessarily higher than for cash, because, in order to execute their orders, the contractors are obliged to consume their own reserves or to borrow, unless they regularly receive the amounts due to them. It is the purchaser who in the last resort bears the consequences of such operations. A State will therefore only exceptionally purchase on credit from private industry. It may even be observed that the tendency in States at the present time is to pay large amounts on account at the various stages of manufacture, rather than to delay payments. In some countries, such as France, these payments on account may amount to eleven-twelfths of the value of the material, so that the material may be very largely paid for before delivery.

4. Services rendered by Personnel. As regards remuneration to personnel, the Committee does not think that States can delay their payments with the sole object of maintaining more than the normal personnel in their service. Wages and various allowances are usually based on rates common to all State employees, and it is difficult to take special measures for the pay of the fighting services in this

respect. Moreover, such measures become immediately known on account of the anxiety to which they give rise. It would therefore not appear that this is a matter of apprehension in applying the Convention.

**5. Transfers from
One Government
to Another.**

On the other hand, the Committee considers that the practice of credit purchases may become serious from the point of view of the Convention when a Government obtains credits from another Government for the manufacture or construction of war material. In this case, payments for material may be made to the private suppliers or State establishments by the Government in whose territory the material has been manufactured, and such payments may be charged against the credits which it has granted to the Government for which the material is intended. The latter Government will no doubt repay its debt, but it will not make payments direct to the suppliers, and the payments in respect of material supplied will not appear specifically in the accounts. The Committee considers that, in view of the Convention, the two Governments concerned should undertake to declare the value of the material at the time of delivery and to give the value separately for land, naval and air material. Such a declaration would make it possible to ascertain the value of the material delivered and not paid for during each year. The study of this proposal would appear to be within the competence of the Committee dealing with the regulation of the trade in and private and State manufacture of arms and implements of war. If effective supervision were established over the production of war material, as suggested in the General Commission's resolution of July 23rd, the question of credit purchases between Governments would be automatically settled, at all events as regards its effect on the efficacy of the mechanism of the Convention.

**6. Transfers
of Material from
One Department
to Another.**

The Committee then considered cases of transfers from one department to another in the same State.

It has been pointed out that as the State is itself the creditor, it might defer payment for material transferred to the military departments. It should be remembered that, although *transfers from one department to another* can be made from a civil ministry or service to a military ministry, they become of importance to national defence only in the case of transfers from one national defence ministry to another national defence ministry; it should, however, be noted that the materials common to the various arms are not numerous.¹ Nevertheless the ministries that make the transfer require the immediate refund of the value of the material transferred, in order to continue manufacturing the material they require for their own needs and hence the practice of deferred payments cannot in this case give grounds for serious apprehension as regards the application of the Convention. Certain difficulties may, however, arise owing to delay in regularisation—for example, as a result of disputes between services.

**7. Transfers made
by Autonomous
Establishments.**

When transfers of material are made to the national defence services by autonomous establishments, the State might conceivably grant special conditions of payment to the fighting services, whereby they would have more latitude for deferring payment than in the case of goods supplied by private firms. But, if the autonomous establishments are not paid for the goods they supply, their operation will be immediately suspended, since it is, in point of fact, supported by the revenue derived from deliveries made to the various public services. These are the very reasons for the regulations according to which the whole or most of the payment for transfers is usually required before delivery (for instance, in France and Italy). Consequently, in the case of transfers between public departments or transfers from an autonomous establishment to national defence departments, the possibilities of postponing payment are limited.

¹ See, in this connection, pages 83, 87-88.

Nevertheless, it has been pointed out that, in certain special cases and for very short periods, it would be possible for a State to employ such a procedure.

**8. Case in which
the Supplier
transfers His Claim
against the State
to a Bank.**

A private firm manufacturing material for the account of a State may assign its claim against the State to a bank. In this way, it receives the sums due to it and the bank becomes the creditor of the State. A special agreement concluded with that bank for regulating advances to contractors may enable the State to postpone payment of the sums due.

If such a procedure were employed, the defence departments might have already received the material without any payments being shown in the State's accounts for the year in which the material was delivered.

**9. Payment in
Treasury Bonds.**

The Committee examined the case of payments made in Treasury bonds. If the sum produced by such bonds is included in the budget as revenue and the cost of the material entered as expenditure, this practice is not open to any objection. If the operation were an extra-budgetary one, and if, when they fell due, the Treasury bonds were redeemed from the service of the public debt, no payment would be shown in the budget, and, consequently, no sum would be included in the Model Statement. The Committee has no information that any such practice is followed. Moreover, it implies that Treasury bonds must be legal tender.

**10. Solution
proposed.**

But the fact that some or all of these possibilities may become effective simultaneously shows that the system of credit purchases and deferred payments might enable a State to some extent to accumulate armaments of which the value would be shown only in returns for years subsequent to that in which delivery was effected. This phenomenon might naturally occur more particularly towards the end of the Convention, if the States could count upon its not being renewed.

The above considerations show that, in order to avoid any abuse in respect of credit or deferred payment purchases, it is necessary, as the Budgetary Experts proposed, to insert special provisions in the Convention.

The Technical Committee accordingly recommends the insertion of the following clause in the Convention:

“ The High Contracting Parties undertake not to employ, in any form whatsoever, the system of credit purchases or any other system of deferred payments in such a way as to increase their armaments beyond the level which the Parties would have been able to attain under the Convention if the credit purchases had not been effected and if payments had not been deferred.

“ Consequently, the High Contracting Parties undertake, during each successive year of the Convention, to limit their payments to the maximum figure represented by the difference between the annual limit assigned to them and the value of the services rendered and materials supplied that have not been paid for during the year.”

In order to enable the Permanent Commission to verify the execution of such an obligation, the Technical Committee has examined the two solutions proposed by the Experts. Like them, it has refrained from proposing that the amount of the State's liability should be inserted in the Model Statement beside the payment figures. The examination of the State accounts has proved that very few of them show the amounts of “ liquidations ” (acknowledged debts) any more than the difference between the

« liquidations » (acknowledged debts) and the payments. The statement could therefore only contain estimated figures and not authenticated figures of the amounts “ liquidated ”.

Consequently, the Committee recommends that States undertake to show in a publicity item the amounts “ liquidated ” for materials delivered and services rendered during the “ exercice ” in respect of which no payment has been made before the latest date up to which payments may be made in respect of that “ exercice ”.

These “ liquidated ” amounts are always known to the Governments, but the figures given will usually not be verifiable. If verified figures were required, all the States would have to change their financial systems so as to show these amounts in the published and audited documents.

Should such a reform appear to the Conference to be too far-reaching, it should be noted that the deferred payments must of necessity *appear* in the later accounts and statements. It will therefore be possible for the Permanent Commission to check *ex post facto* the accuracy of the figures given.

The particulars in question might be given under the following heading:

“ Amounts ‘ liquidated ’ (acknowledged debts) for services rendered and materials delivered but not paid for at the end of the year”.

* * *

The Technical Committee has considered whether it could draw a practical distinction between payments made with a normal delay and payments postponed beyond the customary term; but it was obliged to note that practice varies widely in different countries. In some countries payment is usually made quickly, while in others certain administrative formalities delay it; it appeared to the Committee that any distinction on this subject would be arbitrary. Moreover, it considered that the important thing was to ascertain the total of the amounts “ liquidated ” for materials delivered and services rendered during the year for which corresponding payments do not appear in the Model Statement for the same year, but which are to be shown in the statements for following years.

11. Credits opened by One Government in favour of Another. Moreover, as the Committee considers that the practice of credit purchases may be of importance, especially in a case where a Government opens credits in favour of another Government, it recommends that the following additional clause be inserted in the Convention:

“ Each High Contracting Party undertakes, should it grant credits to other States in order to enable the latter to buy armaments, to declare to the Permanent Commission the nature and value of the material thus transferred, together with the name of the consignee and the date of delivery.

“ Each High Contracting Party undertakes, should it grant credits to its private armament industries to enable them to deliver material on credit to other States, to ensure that such private industries, under the supervision of the State, shall declare the nature and value of the material transferred, together with the name of the consignee and the date of delivery.”

12. Instructions to be drawn up subsequently. If the Conference accepted the Technical Committee’s view, very clear instructions would naturally have to be subsequently laid down in order to show the States how the publicity item should be filled up.

In these instructions, regard might be had to the following principles:

Only payments made during the financial “ exercice ” should be shown in the Model Statement, the amounts of payments in arrears being, whenever possible, given in the special publicity item.

The amounts "liquidated" for services rendered and material delivered for which payment has not yet been made would be shown in the publicity table.

With this system, it might be possible to furnish proof of the observance of an undertaking in respect of limitation, account being taken of the amounts "liquidated" and not paid at the beginning and end of the period or of the successive periods of application of the Convention for limitation of expenditure.¹

13. Conclusion. In conclusion:

Considering that the system of credit purchases and payments deferred beyond the normal time-limits² is burdensome for the States, and that accordingly they have recourse to this system only in exceptional cases;

Considering that the system of credit purchases is of special importance only in cases where a Government opens credits to another Government for the manufacture of war material, and that the work of the Committee for the Regulation of the Trade in and Manufacture of Arms and Implements of War might make it possible to ascertain the exact date of these consignments, the kind of material delivered,³ and its value;

Considering that this practice can be dangerous only at the end of the period of validity of the Convention if States are able to anticipate its termination;

Considering that, if services are rendered and material delivered in the course of one year without payments therefor being shown in the accounts, those payments will have to be shown in the accounts of the following year or years, and that accordingly the determination of an annual limit will prevent recourse to the practice of credit purchases:

The Committee is of opinion that States should be requested to show in the public accounts the amounts "liquidated" (acknowledged debts) for services rendered and materials delivered and not paid for during the "exercice";

And that, in the absence of such a reform, the production of the publicity table of amounts "liquidated" and not paid, and the observance of the provisions laid down in the case of credits being opened by one Government in favour of another for the manufacture of war material, will enable the Permanent Commission to exercise a sufficiently effective supervision over credit purchases, and to satisfy itself that States have not had recourse to this system in order to procure services and material of a value in excess of the limit of expenditure assigned to them. This supervision must, moreover, be exercised more strictly during the last year of the Convention or of each of its periods of execution.

¹ If we call

P_{34}	the payments effected in 1934	=	p_{34}	normal payments	+	p^r_{34}	deferred payments,
P_{35}	" "	1935	=	p_{35}	" "	+	p^r_{35} " "
P_{36}	" "	1936	=	p_{36}	" "	+	p^r_{36} " "
P_{37}	" "	1937	=	p_{37}	" "	+	p^r_{37} " "
R_{33}	expenditure "liquidated" and not paid in 1933 and previous years,						
R_{34}	" "	" "		1934	" "		
R_{35}	" "	" "		1935	" "		
R_{36}	" "	" "		1936	" "		
R_{37}	" "	" "		1937	" "		

Tables IV and headings 7 of Table V of the Model Statement will give the following for the years:

	1933	1934	1935	1936	1937
Table IV of the Model Statement	$P_{34} = p_{34} + p^r_{34}$	$P_{35} = p_{35} + p^r_{35}$	$P_{36} = p_{36} + p^r_{36}$	$P_{37} = p_{37} + p^r_{37}$	
Heading 7 of Table V	R_{33}	R_{34}	R_{35}	R_{36}	R_{37}

Assuming a limitation of expenditure based on the average limit of expenditure of four years, proof of the observance of the undertaking would be furnished on the basis of the following formula:

$$P_{34} + P_{35} + P_{36} + P_{37} + R_{37} - R_{33} \leq L = \text{Limit of four years.}$$

² NOTE. — Major-General BARBERIS and M. WORBS emphasise the impossibility of giving a definition of "normal delays of payment" and hence of "credit purchases".

³ Land, naval, and air material.

VI. SUBSIDIES, LOANS AND PARTICIPATIONS.

The Committee of Budgetary Experts had proposed a table the heading of which was to read as follows:

Table E — "Statement for the financial year . . . of loans made to, or participations acquired in, enterprises having among their objects the furnishing of goods or rendering of services for armament purposes, where these have been excluded from the return on the ground that they are not regarded as armament expenditure."

Although Chapter 8 of the report of the Budgetary Experts and the actual text of the heading of Table E itself may have led to confusion (because of the insertion of the expression "rendering of services"), it is certain that the Experts wished to include in national defence expenditure only subsidies to enterprises supplying the armed forces in peace-time. As, moreover, subsidies may be given to such enterprises for purposes other than that of increasing their production (for social purposes, for example), the Committee recognised that States should be entitled, on showing good grounds, to exclude those subsidies from the Model Statement. The fact of their exclusion, with the grounds therefor, was to be stated in Table E, which was specifically intended for the statement of grounds for exclusions of this character.

The first Powers to send in their Model Statements in accordance with the circular of the League Secretariat dated June 13th, 1931 (the United Kingdom, France and the United States of America), gave to Chapter 8 of the Experts' report and to the heading of Table E the narrow interpretation which the Experts themselves intended them to bear. In the case of these Powers, it is well known that there are certain large enterprises interested essentially in the development of the natural resources of the State which are at the same time of importance for national defence. Their several Governments have given or are giving them subsidies or have taken up large amounts of their shares. That is true of the Panama Canal and the Shipping Board in the United States of America, the Suez Canal and the Anglo-Persian Oil Company in the case of the United Kingdom, and the "Compagnie générale transatlantique" in France. States rightly interpreted the Budgetary Experts' proposal in not including such subsidies in the Model Statement.

The other Powers that sent in their Model Statements later took the same view and inserted expenditure on subsidies in the Model Statement only in respect of subsidies to private enterprises manufacturing war material in time of peace. Thus, States had not inserted in their Model Statements expenditure incurred to strengthen their war potential.

Nor had they in such cases to give grounds in Table E for exclusions in respect of subsidies granted to such undertakings for purposes other than national defence. Annexed Table E is thus found to be blank for all the Powers except in the case of two countries, Germany and Poland, which have indeed shown in it subsidies actually granted to private armament enterprises, but which they considered should be excluded from the Model Statement on the ground that they were of no importance for national defence. This procedure on the part of the several Governments is entirely in harmony with the general view held by the Committee, an expression of which is to be found in Chapter II of the present report—viz., that the idea of including in the Model Statement all expenditure for the increase of war potential must be abandoned.

The Technical Committee is of opinion, further, that Table E (or the publicity item which will replace it) must retain the character given to it by the Budgetary Experts—namely, that it should be a means of proving that all subsidies to private armament enterprises have been duly inserted in the Model Statement, the table showing very accurately all cases in which subsidies of this kind for purposes other than national defence have been excluded from the Model Statement.

No difficulty of interpretation can arise, and the documentation shows that, in point of fact, no such difficulty has arisen, in the case of subsidies granted direct by the State to private undertakings engaged exclusively in the manufacture of armaments.

Very frequently, however, enterprises manufacturing war material in peace-time also manufacture other material for current use. The subsidies granted by the State to such establishments may be accorded for purposes partly economic, partly financial, partly social, but at the same time also for purposes of national defence.

It would be useless to hope to be able to trace and insert in the Model Statement all subsidies of this kind in all their bearings upon national defence. Only where the subsidy was of quite obvious importance for national defence should its insertion in the Model Statement be required. Such subsidies are generally granted in the countries concerned by virtue of legislative provisions and it would thus be possible to check their inclusion in the Model Statement, particularly if the States were to show in a publicity item why they have thought fit to exclude certain subsidies from their Model Statements. Each Power, in short, would be asked to insert its expenditure of this kind in the Model Statement when it is obviously for a national defence purpose, and to show in a publicity item all cases of exclusion of such expenditure from the Model Statement.

The heading of this item, however, will have to be made clearer. As it is difficult to express a concise heading of this kind sufficiently clearly to preclude any possibility of misinterpretation, it would seem expedient to append to the heading detailed instructions.¹

The heading itself might read: "Expenditure not included in the Model Statement for subsidies to and participations in enterprises having among their objects the furnishing of war material in time of peace".

By omitting the words "rendering of services for armament purposes" from the original heading of Table E the confusion to which the wording was previously liable is eliminated, while it is made clear that the only subsidies to be inserted in the Model Statement are such as relate to private firms manufacturing arms and ammunition, aviation material of a military character, and to yards and establishments for naval construction—in fact, to firms covered by the conventional list inserted in Appendix 2 of Chapter II.

In conclusion, the publicity item should enable States to indicate the cases in which they considered that subsidies given to enterprises were not military in character and should therefore be excluded from the Model Statement. This item will therefore be designed solely to show that all expenditure on subsidies covered by the conventional list is included in the Model Statement.

It may be noted that, in dealing with these questions, the Committee has throughout excepted the special situation of the U.S.S.R. In the U.S.S.R. there is no private war industry. Consequently, the Soviet delegation has not included in the Model Statement any expenditure for subsidies to the State manufactories of war material on the ground that the other Powers ought to include in the Model Statement, not merely the subsidies and participations of the State, but also the capital invested in these enterprises by private persons. This question, moreover, is far wider than the scope of the present observations. Here it need only be noted that the U.S.S.R. was justified in writing "Nil" in Table E, since there are no private enterprises in the U.S.S.R. and there is accordingly no reason to include such expenditure in the Model Statement.

¹ These special instructions would form part of the instructions to be framed later.

VII. EXPENDITURE ON PENSIONS.

1. General Observations.

The first Committee of Budgetary Experts, that of 1926-27, discussed at length the question whether military pensions were to be regarded as national defence expenditure.

Logically, it should be admitted that *ordinary pensions*, more particularly service pensions—*i.e.*, pensions payable after a certain period of service—do represent national defence expenditure, since they form part of the emoluments of soldiers of the Regular Army when their career is considered as a whole. On the other hand, war pensions should not constitute national defence expenditure within the meaning of the Convention, since they can only be regarded as compensation for personal injuries sustained by the pensioner as a result of the war.

At the same time, the Committee of 1926-27, whose conclusions were confirmed by the Committee of Budgetary Experts of 1930-31, came to the conclusion that ordinary pensions should be excluded from the Model Statement, since the diversity in the methods of accountancy and the complexity of the pensions systems made it impossible to find a uniform criterion applicable to all States or to distinguish in the accounts between ordinary pensions and war pensions, owing more particularly to the existence of mixed pensions.

It may be observed that the first reason named by the Budgetary Experts for excluding pensions from the list of national defence expenditure loses all force by reason of the fact that the Technical Committee admits the impossibility of comparing armaments of all countries by comparing the corresponding expenditure.

Moreover, the documentation has made it clear that the distinction between ordinary pensions and war pensions is in many cases quite easy to establish.

2. War Pensions.

As regards war pensions, it will be noted that, of the twenty-seven Powers whose documents have been examined, seven (Albania, Irish Free State,¹ Netherlands, Norway, Sweden, Switzerland, U.S.S.R.) have no war pensions. Of the other twenty countries, the majority draw a definite distinction in their budgets and accounts between payments for war pensions and other pensions.

In some of these countries there are mixed pensions, in regard to which it is difficult to differentiate in the accounts between the amounts paid by way of ordinary pension and for war disablement respectively. The Powers in whose accounts a fairly accurate distinction of the expenditure on ordinary pensions and war pensions can be made include those in which the burden of war pensions is heaviest; in these last-named countries, war pensions are as a rule paid out of a budget other than the budget in which ordinary pensions appear or else the latter categories of pensions are kept in a separate account.

The cases of two Powers—Japan and India—call for the following remarks:

(a) War pensions do not amount to a very large sum; the total amount of pensions is itself not very high.

(b) There is reason to think that, if these countries were asked to make an effort in that direction, their administrations would succeed in time in isolating ordinary pensions from those that should be regarded as war pensions.

¹ The war pensions paid to soldiers of the Irish Free State who served in the Great War are paid by the United Kingdom. The Powers which took no part in the Great War but which pay war pensions include Denmark, which has undertaken to pay the war pensions of ex-service men from Schleswig.

(c) It is possible in both these countries to separate payments for invalidity pensions and mixed pensions (service and invalidity). It would perhaps be possible, during an initial period of the Convention's application, to regard invalidity pensions and mixed pensions very roughly as war pensions, since cases of disablement are of course commonly due to war.

3. Ordinary Pensions. The Experts of 1927 and those of 1930-31 observed that, among the ordinary pensions paid to soldiers, appear both invalidity pensions and service pensions. It might be held that only the latter should be included in the Model Statement, because soldiers entitled to a service pension may, to a certain extent, be subject to military obligations. It should be pointed out, however, that among those in receipt of service pensions are ex-officers so advanced in age that the possibility of recalling them to the colours is purely theoretical.

Moreover, it is sufficient to examine the various pensions systems to realise that the ordinary pension and pay are often ultimately one and the same thing.

When a big concern undertakes to pay retiring pensions to its staff, it includes in its expenditure both the pay while in its service and the pension. If the man in the street or taxpayer wishes to estimate the amount of the national defence expenditure, for which he has ultimately to pay, he cannot make a subtle distinction between the various items of national defence expenditure and regards as such the ordinary pensions paid to the personnel of the land, sea and air armed forces.

An examination of the various ways in which pensions are made up will, moreover, reveal the close link which in many cases exists between pension and pay.

4. Various Systems of financing Pensions. The Government may (as is done in the United Kingdom several Dominions and the U.S.S.R.) make no deduction for pensions from the pay of regular members of the forces and may then pay their retiring pensions out of public funds. Or, on the other hand, the Government may make a fairly large deduction from pay, such deduction being paid into a pension fund, out of which pensions will be paid without any further Government assistance. In the latter case, the Government, in point of fact, increases the pay by an amount which includes the sums necessary to provide for pension; thus regular members of the forces do not need themselves to make over a percentage of their pay to a special fund in order to be sure of a service or invalidity pension.

Several Powers follow an intermediate system: the Government pays the pensions without recourse to a special pension fund. The Treasury itself acts, so to speak, as a pension fund and for that purpose deducts a certain amount from the gross pay. If the amount deducted is not sufficient to make up the pension in its entirety, the Government adds the additional sums required.

Of twenty-seven Powers whose documents have been examined, nineteen have no pensions fund; it is the Government itself that pays the pension either by making a deduction from the pay (6 per cent in France and Italy) or without making any deduction (the United Kingdom, certain Dominions and the U.S.S.R.).

In some countries (Denmark, Norway, Dutch Indies, Roumania) there is an autonomous pension fund to which the Government makes a grant, which it adds to the sums withheld for pensions from officers' pay (5 per cent in Denmark, 10 per cent in Roumania).

In Switzerland, the Government pays insurance premiums for soldiers.

These various systems for the establishment of pensions may be summarised in the following table:

	WITHOUT SPECIAL FUND		WITH SPECIAL FUND			
	NATIONAL BUDGET		NATIONAL BUDGET		BUDGET OF SPECIAL FUND	
A. — Without deduction from pay.	<i>Receipts</i>	<i>Expenditure</i> Pay 100 Pensions . . 20 — Total expenditure 120	<i>Receipts</i>	<i>Expenditure</i> Pay 100 Government contribution to fund . . 20 — Total expenditure 120	<i>Receipts</i> Government contribution 20	<i>Expenditure</i> Pensions 20
B. — With deduction from pay covering part of pensions.	<i>Receipts</i> Deduction from pay . 10	<i>Expenditure</i> Pay 110 Pensions . . 20 — Total expenditure: (a) gross . 130 (b) net . . 120	<i>Receipts</i>	<i>Expenditure</i> Pay 110 Government contribution to fund . . 10 — Total expenditure 120	<i>Receipts</i> Officials' contribution 10 Government contribution 10	<i>Expenditure</i> Pensions 20
C. — With deduction from pay covering total pensions.	<i>Receipts</i> Deductions from pay. 20	<i>Expenditure</i> Pay 120 Pensions . . 20 — Total expenditure: (a) gross . 140 (b) net . . 120	<i>Receipts</i>	<i>Expenditure</i> Pay 120 — Total expenditure 120	<i>Receipts</i> Officials' contribution 20	<i>Expenditure</i> Pensions 20

5. Should Ordinary Pensions be shown in a Special Publicity Table ?

It might appear reasonable to regard expenditure in connection with ordinary military pensions as true national defence expenditure and so to include it in the Model Statement. It should, however, be pointed out that, if the Model Statement is to be regarded as drawn up with a view to a Convention for the limitation of expenditure, and, similarly, if it is regarded purely from the point of view of publicity, expenditure on pensions differs in kind from other national defence expenditure.

Whereas other expenditure on national defence might be curtailed if a general reduction in armaments were decided upon, pensions are a sacrosanct State obligation and therefore cannot be cut down. In the event of any reduction in armaments, pensions would on the contrary increase commensurately with any decrease in the military establishment.

While it is useful from every point of view to know the expenditure on pensions, it should be clearly distinguished from other expenditure. The Committee therefore proposes to show expenditure on ordinary pensions in a special publicity item, which would follow immediately upon the Table A, which gives the total expenditure on the armed forces. A global figure only would be given, as it would not be possible to distinguish between service pensions for the various armed forces.

6. Personnel in receipt of Pensions. The personnel whose pensions are to be included in the proposed table must be clearly defined.

Hitherto, attention has been devoted to professional service-men, but every Army and Navy employs civilian officials and workers also.

The remarks made in respect of professional service-men apply with equal force to civilian officials, and the expenditure on pensions of such officials should appear in the publicity item.

The position is different as regards workers. In some countries, the Government pays a direct pension to some or all of these workers (the "established" personnel in the United Kingdom, and the permanent labour personnel in France and Italy); but in most countries (Belgium, Germany, U.S.S.R., etc.), the workers are insured with old-age insurance funds in accordance with the provisions of their national legislation; in certain countries they are insured with accident insurance funds. In these circumstances, it does not appear possible to ask *all* States to show pensions paid to workers. Most of the workers are, moreover, in the establishments and workshops engaged on the manufacture, repair and maintenance of material, and pension payments are included, like wages, in the cost of manufacture, repair or upkeep of material.

A fundamental distinction should, however, be made between the working staff with appointments and a real status and the staff which has no legal position which might in practice be assimilated to that of civil officials—for instance, the working staff which is bound by a mere contract of service.

In the case of *permanent workers* with pension rights on the same footing as civil officials, it is advisable to include pensions in the publicity table, while, as regards the other workers, it would be advisable to include in the Model Statement the insurance contributions paid by the State to the old-age insurance funds.

Definite instructions will naturally have to be drawn up subsequently to cover these cases.

7. Conclusions. As regards war pensions, the Committee is of opinion that expenditure arising therefrom, which in some States (Australia, Austria, Germany, New Zealand, South Africa, United States of America) is very considerable, occasionally even exceeding expenditure on national defence, cannot in any way be regarded as expenditure on national defence, and there is no need to consider the inclusion of such expenditure, which would entirely alter the nature and structure of the Model Statement. As was said above, out of the twenty-seven Powers dealt with, only twenty pay war pensions and it may be presumed that the majority of the thirty-five Powers that have not been examined do not pay them, or only pay comparatively small sums. It cannot be maintained that, because a Power assists those who shed their blood for their country in the war, such a Power is preparing in any way for a new war.

To quote only one author among all those who have dealt with this problem, it may be remembered that JACOBSON, in a study on military expenditure ("Armaments Expenditure of the World"), which appeared in *The Economist* of October 19th, 1929, divides "military" expenditure into (a) expenditure in preparation for future wars, including ordinary pensions, and (b) expenditure for the liquidation of past wars; war debts and *war pensions* are included in the latter class.

The Committee considers that information on the second class of expenditure would be out of place in a Convention for the limitation of armaments and, furthermore, that it would be incomplete, as it would not give a true idea of the financial burden imposed upon the various Powers with a view to liquidating the past; in countries in which, for purely financial reasons or as a result of a fundamental change in their political outlook, the Government does not pay any war pensions, the dire and grievous inheritance of

the war falls upon the population itself and, even if it cannot be shown in the Model Statement, it none the less exists.

It is principally owing to the absence of any connection between such expenditure and preparation for war that the Committee proposes that no information should be asked for regarding this expenditure under the heading of publicity.

It proposes, on the contrary, that ordinary pensions, the importance of which in relation to national defence has been emphasised, should be included in a special publicity item inserted in the Model Statement immediately after the table of expenditure on the three forces.

This item might usefully comprise an optional heading enabling States which are able and wish to do so to state the *amounts of pensions granted as a result of dismissals due to a reduction of armaments*.

VIII. SERVICES AND GOODS NOT PAID FOR IN CASH.

During the discussions in the Expenditure Commission, the German delegate submitted the following proposal:

“ States that use services and goods required by the national defence organisations which are not paid for in cash and therefore do not appear in the budget expenditure should fill up a corresponding table annexed to the Model Statement. The form and the details of this table shall be fixed by the Technical Committee of the Commission.”¹

The Committee has carefully examined this proposal.

In view of the distinction laid down in Chapter IV of the present report in respect of services rendered free of charge, it has not considered it desirable to obtain information regarding any possible difference between the average wages of an unskilled worker and the subsistence expenditure (including pay) of a soldier called up under conscription, nor the theoretical earnings which might have been gained by members of associations recognised as formations organised on a military basis. It is sufficient, in the opinion of the Committee, that the expenditure of the armed forces and of formations organised on a military basis should be shown in the Model Statement exactly as it appears in the accounts. But a number of interesting cases have been brought to the notice of the Committee.

For instance, it may happen in exceptional cases that a soldier, on entering military service, brings his horse, arms and the whole or part of his uniform; he may also be entrusted with their maintenance during his service without having any claim to compensation from the State. Obviously, the military budget might be relieved by such a procedure in the same manner as if a part of the national defence expenditure were borne by private persons.

In the same way, certain members of formations organised on a military basis might themselves supply their own food, clothing and equipment and even pay certain transport expenses.

In some States, it may happen that work on national defence is performed by workers normally in the employ of undertakings or individuals who pay them for such work, the State not effecting any payment under this head.

A State might also engage unemployed workers on certain national defence works and pay them a wage additional to their unemployment allowance.

In accordance with the very principle of the limitation of expenditure, all expenditure of the kind mentioned above is subject to such limitation.

¹ See Minutes of the National Defence Expenditure Commission, page 37.

If such expenditure is accounted for, these accounts should be produced by the State concerned as evidence in order to check the insertion of the expenditure in the Model Statement.

It may, however, happen that the amount of such expenditure cannot be ascertained except by means of estimates. The Committee therefore proposes that the amount of this estimate and the foundations on which it is based should be shown in a special publicity table in order that an opinion may be formed as to the method in which the amount of the expenditure inserted in the Model Statements has been estimated.

In such cases, however, any estimate may encounter material impossibilities, and the Committee considered that, in these cases, the States should, however, insert in this publicity table as complete information as possible regarding the nature and importance of such services rendered to the State free of charge.

In this publicity table, the States should also insert all particulars as to the volume of services in kind rendered to the armed forces or formations organised on a military basis—such as free lodging provided by the local authorities in connection with the movements of troops, or supplies of foodstuffs, etc., whatever the nature of such supplies. The Committee therefore suggests, in accordance with the German delegation's proposal, a special publicity item which might be entitled:

“Information regarding unpaid services and supplies for national defence.”

Instructions must be subsequently drawn up in order to make clear the meaning of the information.

SUMMARY AND CONCLUSIONS.

1. Having studied in the light of the documents furnished by the various Governments the proposals of the Committee of Budgetary Experts regarding the particulars to be appended to the Model Statement, the Technical Committee has arrived at the following conclusions:

The following tables should be abolished:

Table A: Expenditure on pay of reserves.

Table B: Expenditure on shipbuilding.

The importance of the latter table disappears owing to the fact that Head IV of the Model Statement (Naval Expenditure) has been rearranged so as to show separately the expenditure on shipbuilding, including arms and ammunition and maintenance costs.

2. In place of the Annexed Tables proposed by the Committee of Budgetary Experts, the Technical Committee recommends that the table giving the total expenditure for the three forces should be followed by a fifth table, which would include a number of particulars or would show in the first place the total expenditure on ordinary pensions (Information Item No. 1). The statement of this total amount might be followed by an optional indication of the amounts of pensions granted as a result of reductions in armaments. This information regarding pensions, coming immediately after the total expenditure on the three forces, may enable the reader to add up the expenditure on pensions together with the expenditure on armed forces and formations organised on a military basis.

This Table V would also include the following information:

(2) The difference between the initial amounts of the block credits voted for several years and any part of such credits already entered in the budget, including the budget for the year to which the Model Statement refers.

(3) The difference between carry-forward credits—that is to say, credits which may be used for payments to be made during the year or subsequent years, and payments in respect of such credits shown in the accounts for the former.

(4) Authorisations to enter into commitments granted apart from credits voted in the budget of the year to which the Model Statement refers.

(5) The difference between the block credits contained in special accounts and payments already made against such accounts, including those made during the year in respect of which the Model Statement has been compiled, together with all other credits available in special accounts.

(6) The credit balance of autonomous establishments remaining at the disposal of those establishments.

(7) Amount liquidated and not paid for materials supplied and services rendered.

(8) Expenditure not included in the Model Statement for subsidies to and participations in private undertakings having among their objects the furnishing of war material in peace-time.

(9) Various information regarding unpaid services and supplies for national defence.

Chapter XVIII.

POSSIBILITY OF ASCERTAINING THAT EXPENDITURE APPEARING IN THE ACCOUNTS HAS BEEN CORRECTLY TRANSFERRED TO THE MODEL STATEMENT.

A. RECONCILIATION TABLES.

1. Introduction. The principle of the reciprocity of obligations implies that the provisions of the Conventions must be observed equally and uniformly by all the signatory States. If the Convention obliges States to limit their national defence expenditure, either as a whole or separately for the various forces or for war material, those States will desire an assurance, in the first place, that the expenditure of none of the contracting parties will exceed the limit or limits assigned to them and that they cannot evade the limits provided for transfers between the categories of limited expenditure. Such an assurance can only be obtained if it is possible adequately to supervise the fulfilment of the undertakings assumed by the various States. The States must show the amount of their national defence expenditure, as defined by the Convention, in the form of a Model Statement, the necessity for which has been shown in Chapter III. The figures of payments entered by the States in the Model Statement are taken almost entirely from the published accounts, the authenticity of which is guaranteed by the existence of internal supervision in the various countries, and sometimes also by the public scrutiny to which they are subjected in Parliament (see Chapter VI).

2. Necessity for a Reconciliation Table. The actual accounts of national defence departments—to speak of no others—differ entirely from the Model Statement, both in general structure and in their subdivisions. The Model Statement groups the expenditure on the land, sea, and air forces under thirty-one sub-heads, whereas the accounts often comprise hundreds¹ of subdivisions. In order to fill up, for instance, sub-head E (Maintenance) of the Model Statement, most of the States must include in it the figures of numerous subdivisions of their accounts; in other cases, on the contrary, they must split up certain items of their accounts and divide them among various sub-heads of the Model Statement. In fact, in order to calculate the figures to be inserted in the statement, States are obliged to change to a great extent the arrangement of the figures appearing in their accounts. A further complication arises when, in filling up the statement, expenditure entered in the accounts of other ministries in special accounts, or expenditure incurred by regional or local collective entities or private associations or persons, has also to be taken into consideration.

The Model Statement alone could not show the connection between the figures contained in it and those entered in the accounts. For this purpose, a guide, or a link, as it was termed by the Budgetary Experts in Chapter 14 of their report, is required to connect the accounts and the statement and show how the figures in the statement have been extracted from the accounts. Only a reconciliation table will make it possible to grasp the relationship between the figures of the statement and the accounts themselves, and to check and verify the correctness of the figures entered in the statement.

¹ In this connection, see the table in Chapter V, page 36.

If a Convention is concluded, the contracting parties must show by means of the Model Statement how they have fulfilled their contractual obligations, but it will be by the State accounts and the reconciliation table that they will prove the correctness of their statement.

**3. Object of the
Reconciliation
Table.**

The object of the reconciliation table, therefore, is to show exactly how each figure in the accounts and all figures obtained from other sources have been transferred to the statement, so that it may be possible to determine and verify whether the statement is complete and accurate.

Without going, for the moment, into the form of the reconciliation table, we will consider the various functions which the table must fulfil in order to attain its purpose.

*(a) Indication of
various accounts
concerned.*

In the first place, the reconciliation table must give a complete list of all expenditure items in the accounts and other original documents which, under the Convention, must be transferred to the statement. In other words, it must mention all national defence expenditure within the meaning of the Convention, whatever the nature and the origin of the resources out of which such expenditure is defrayed. The first task of a country drawing up this statement must be to prepare such a list. Before dividing up the expenditure among the heads and sub-heads of the Model Statement, it must list all the national defence expenditure which it incurs and which is covered by the conventional list of such expenditure.

The essential documents for drawing up such a list are in this case the budgetary accounts of the national defence departments, which, as has been shown in Chapter VII, contain the bulk of military expenditure. Next come, in order of importance: the budgetary accounts of civil departments or other public services, the special accounts which sometimes contain the expenditure defrayed out of special resources, including foundations or bequests by private persons or organisations, and, lastly, the accounts of local or regional collective entities. In certain States, national defence expenditure is found in all the accounts above mentioned; in other States, it is found only in some of those accounts, but it is essential that each State should show in its reconciliation table all the items in its accounts which bear national defence expenditure.

*(b) Indication of the
method followed in
transferring
the figures from the
accounts
into the Model
Statement.*

The reconciliation table has to perform a second and its most important function—namely, to indicate the manner in which military expenditure appearing in the accounts of national defence departments or elsewhere has been distributed among the heads and sub-heads of the Model Statement.

This function of the reconciliation table is extremely important, since, without this information, it would be impossible to see how the figures in the statement had been extracted from the accounts of the State, and therefore to verify their accuracy. It is also the information in the reconciliation table that alone enables an exact idea to be formed of the meaning of the figures contained in the accounts and of the real purpose of the expenditure incurred.

The correct allocation of expenditure in the statement is specially important for two reasons. The draft Convention provided for the possibility of separate limitation and publicity of expenditure on the land, sea, and air forces. Consequently, a special table is also proposed in the statement for each of these categories. The accounts of only very few States, however, clearly separate the expenditure for the three forces: in particular, the expenditure on the Air Forces is frequently combined with that on the Army or Navy. The separation of the expenditure for the three forces is just the problem which presents the most serious difficulties (see Chapter IX). This shows how essential it is that the reconciliation table should show very exactly the way in which this separation has been made. The draft Convention also provides for separate publicity and limitation for war material; it

therefore becomes particularly important also to distinguish exactly the expenditure under that head.

As stated in Part IV of the report, the Committee, when examining the material laid before it, found that many States had met with certain difficulties in allocating the expenditure to the various heads of the Model Statement. The problem, however, is not inherently insoluble. The essential point is to analyse each item in the accounts carefully, in order to ascertain to what sub-head of the statement it corresponds by its nature, and whether it is possible to include it entirely under one sub-head or whether it must, on the contrary, be divided or split, so as to allocate the different kinds of expenditure that it covers to their proper places in the statement. Suppose, for instance, that the accounts of a State contain an item relating to barracks and including no other expenditure of a different kind: that item must be transferred in full to sub-head K. Suppose, however, that another item includes, not only expenditure relating to pay, but also expenditure for the commissariat. Pay is entered under sub-head B, and food supplies under sub-head E, in the statement; the item must therefore be split up, and the appropriate parts allocated to sub-heads B and E. After each item of the accounts has been thus analysed and correctly classified under the sub-heads of the statement, the figures allocated to each sub-head must be added up in order to obtain the totals, which are the only figures to be entered in the Model Statement.

The operation is either more or less simple according to the form in which the States keep their accounts. The more detailed the accounts and the more their headings refer to distinct objects the greater is the number of items that may be transferred complete to the statement and the easier it is to check the accuracy of any subdivision. It is a different matter if many figures in the accounts have to be split up and allocated to various heads and sub-heads in the Model Statement. Subdivisions of this kind have had to be made for almost all the countries whose documentary material has been examined (see Part IV and the tables annexed thereto).

But the reconciliation table must not merely show the numerical distribution of the items of the accounts: it must also indicate, in cases where they have been split up, the rules according to which this has been done. Study of the documents submitted has shown that the rules followed have been of the most diverse character. It is, however, possible, as stated in Part IV, to distinguish two main cases in this connection. It may be necessary, in order to split up the items, to refer to unpublished administrative documents. Though the process of splitting up does not allow of exact supervision, it certainly offers in this case a relatively sure guarantee of the accuracy of the allocation. The items may also be split up solely on the basis of estimates, in which case the supervision will be less effective. Naturally, the degree of accuracy of the estimate varies in such cases according to the basis on which the estimate is compiled and the possibility of checking it. It should, however, be borne in mind that difficulties arise which the reconciliation table cannot always entirely eliminate. These difficulties have also been stressed in Chapters IX and X.

It is essential therefore that all signatory States should undertake to furnish, in connection with the reconciliation table, any useful information regarding the allocation of the figures of their accounts, and in particular the manner in which these figures have been split up.

(c) *Indication of expenditure not included in the Model Statement.*

The reconciliation table has a third function which is closely related to this distribution of expenditure among the sub-heads of the Model Statement.

A study of the documents has shown that, amongst the expenditure appearing in the accounts of the defence ministries, there are some which, wholly or in part, are not national defence expenditure within the meaning of the Convention.¹ The same may be observed in regard to other accounts in which certain expenditure appears which is partly devoted to military,

¹ See Chapter VII, pages 61.

but also partly to purely civil purposes.¹ The sums used for non-military purposes should naturally not appear in the Model Statement, but should on the contrary be deducted from the heads in which they appear. Deductions of this nature should be mentioned in the reconciliation table, the exact reason being given.

(d) *Application of rules laid down for drawing up the Statements.* If the reconciliation table is to serve as a guide and show accurately throughout how the figures entered in the accounts have been transferred to the Model Statement, it would be incomplete if it did not also show how the rules to be laid down in the Convention for drawing up the Model Statement have been applied. These rules must naturally be exactly observed by all parties. But, when a State has been obliged to make certain derogations,² it must explain the reason for such derogations and their extent with the aid of the reconciliation table.

4. Form of the Reconciliation Table. The Committee of Budgetary Experts of 1931 expressly refrained from drawing up a model reconciliation table, and even from giving general instructions for the drawing up of such a table. It merely defined the object of the table. Each State was thus free to choose whatever form it preferred in the case of this table.

This solution offered certain advantages, but it also had serious drawbacks. The drawing up of the table involved considerable difficulties for the States, and the tables submitted differ not only in form but also—which is more serious—in their intrinsic value. All the tables have not wholly met the required object and the Committee has therefore been obliged to ask for a great many explanations.

Consequently, if a Convention is concluded, steps should be taken to ensure a uniform presentation of these tables. In view of these considerations, the Committee has chosen models (see the Annex to this chapter) which comprise one table containing an analysis of all the accounts relating to national defence, tables containing a synthesis of the figures entered in these statements of each of the three forces, and summaries. It will also be essential subsequently to prepare definite instructions for the use of these tables.

5. Conclusions. There is no doubt that the reconciliation tables constitute instruments which will enable the nature and amount of military expenditure of the various States to be gauged more accurately than has hitherto been possible. It is therefore gratifying to note that all States, and in particular the majority of the great military Powers, have not hesitated to submit their reconciliation tables to the Committee. In this way a great step forward has already been taken as regards publicity of military expenditure, and there is now reason to hope that effective supervision may be possible should a Convention be concluded.

The above considerations show that the reconciliation tables doubtless cannot solve all the difficulties inherent in the present form of presentation of certain accounts. Their value is to some extent dependent on the nature of the indications in the internal accounts of States. The Committee considers, however, that the reconciliation tables drawn up on the lines set forth above should afford the Permanent Commission a means of ascertaining that the expenditure entered in the accounts of the various States has been correctly transferred to the statements. In particular, they will constitute a valuable instrument for the examination of the closed accounts, and will enable the destination and use of sums spent on national defence to be clearly seen. In course of time, as a result of its use, States may be induced to draw up their accounts in such a way as to make the transfer of the figures to the Model Statement an increasingly easy matter; it will thus help

¹ See Chapter VII, page 63.

² See page 174 and following.

to standardise the accounts of the various States and will enable the development of the military expenditure of the States which have acceded to the Convention to be followed year by year.

B. DEROGATIONS.

1. Budgetary Experts' Views on Derogations. On several occasions in the present report, and in connection with the reconciliation table in particular, the term "derogations" is employed. It is now necessary to state what the Committee understands, generally speaking, by this expression.

It will be remembered that the Budgetary Experts Committee drew up certain rules which it inserted either in its report or in the annexed instructions. In particular it laid down fundamental principles to the effect that:

- (1) *All national defence expenditure should be subject to publicity and limitation;*
- (2) *Such expenditure should be classified for international purposes in accordance with the various heads and sub-heads of a Model Statement;*
- (3) *The figures used for the purpose should be taken from the audited and published closed accounts.*

Although the Budgetary Experts took the view that the Governments would, in general, be in a position to carry out the instructions relating to the Model Statement, they recognised that certain States might not be able to comply rigidly with these instructions. They accordingly considered that it was necessary:

- (a) *That the Parties to the Convention should appreciate exactly what they undertook to limit; and*
- (b) *That the definition of the elements limited should remain unchanged from year to year during the period for which the Convention was to apply.*

To this end the Committee recommended: (1) that each Government should fill up the Model Statement before the Conference, following as closely as possible the instructions with regard to totals and with regard to Head IV (War material) of the Model Statement; (2) that the Model Statement should be filled up on the basis of the last closed accounts; (3) that the method followed by each State should be explained in detail to the Conference; and (4) that each Government should undertake to adhere strictly to its own method of filling up the Model Statement, as accepted by the Conference, and that its undertaking in this connection should be stipulated in the Convention.

The Budgetary Experts' Committee considered that the recourse to certain derogations by States could not affect the working of the limitation machinery. The essential point in its view was that, in the case of each State, the exact meaning of the expenditure should be evident and that each State should bind itself to follow the same methods for the duration of the Convention in entering its expenditure in the Model Statement. As armament expenditure cannot serve as a standard of comparison for armaments themselves, there was no objection, in the view of the Budgetary Experts, to the States making certain derogations from the instructions.

2. Examination of the Question by the Technical Committee. In the course of its study of the documentary evidence, the Technical Committee attached particular importance to the derogations found necessary by the Governments when first drawing up the Model Statement.¹ These derogations may be divided into three main categories:

Classification of Possible Derogations.

- (a) *Derogations of content—i.e., where all defence expenditure is not included in the Model Statement;*

¹ It should be observed that certain derogations have been involuntary, owing to the absence of sufficient precision in the definition of certain categories of expenditure. Instructions to be drawn up subsequently will take the various difficulties encountered in this connection into account.

(b) *Derogations as regards accuracy of figures, where, in default of the requisite figures in the accounts, the amount of the expenditure is based on estimates;*

(c) *Derogations of classification—i.e., where defence expenditure is included in the Model Statement, but certain figures have not been allocated to the different sub-heads of the Statement, prescribed in the instructions in the draft annex.*

3. Derogations of Content.

The documents show that derogations as regards the content of the total defence expenditure are not serious. The most important are due to absence of clear definition of certain categories of expenditure.

Clearness of definition will also reduce difficulties connected with “ marginal cases ”, where a service may be regarded as partly civil and partly military—as, for instance, expenditure on Protection of Fisheries, which could be regarded either as purely coastal police work or as containing a national defence element.

Clear instructions will also be required as to how certain minor free¹ services should be treated.

4. Derogations as regards Accuracy of Figures.

The present Committee agrees with the formula proposed by the Committee of Budgetary Experts—namely, that annual expenditure should mean the payments recorded in the final accounts relating to the year in question.

The Committee has found that this condition has been generally fulfilled in so far as total expenditure is concerned, because by far the greatest part of defence expenditure is included in the accounts of military departments. A small proportion of defence expenditure, however, is borne by civil departments or by local authorities, private associations and individuals.

(a) *Defence expenditure incurred by civil departments.*

It appears to the Committee not unreasonable to demand, in principle, as high a standard of authenticity from civil departments in regard to the amounts included in their expenditure for national defence as from the defence departments themselves. The Committee therefore recommends that, if important expenditure directly related to national defence is entered in the accounts of civil departments, it should be rendered easily identifiable in their final accounts with a view to its inclusion in the Model Statement. A derogation should only be permitted in the case of those services common to civil and military authorities, such as postal services, etc. In this case, in view of the relatively small amounts involved, an element of estimation might be permitted, but the Committee recommends that estimates of such expenditure should be clearly shown in some official document.

(b) *Defence expenditure provided by local authorities, private associations and individuals.*

This expenditure is relatively small and may be regarded as being on a rather different footing from national defence expenditure borne direct by the State. The documents show that, in some cases, this expenditure is not shown in published accounts. Certain services which may be rendered by local communities—for instance, the placing of certain premises at the disposal of the military authorities—may involve expenditure (for instance, repair of damage) which, as it does not require immediate cash provision, is not evaluated for accountancy purposes. It also happens that the accounts of local authorities draw no distinction between expenditure for general purposes and expenditure connected directly with national defence. In these cases, the expenditure figures inserted in the Model Statement, which will not in any case be of great importance, will not be audited figures.

¹ See Chapters IV and XVII.

5. Derogations of Classification. The Budgetary Experts of 1931 did not define the extent to which derogation from the principles of completeness of content or of accuracy of figures should be permitted. The Technical Committee is of opinion that the possibility of departing from these principles should be permitted in re-stating defence expenditure depends on the purpose for which such re-statement is used. In so far as expenditure is to be limited, the statement of such expenditure should, *in principle*, (a) represent all the relevant expenditure and (b) the expenditure included should be identifiable in the published accounts. Otherwise control by the Permanent Disarmament Commission would become both difficult and vexatious. Minor departure from this principle might of course be permitted. In so far, however, as expenditure would not be subject to limitation, but only to publicity, it would not be necessary to insist, as regards the possibility of identifying the expenditure in the items of the accounts and as regards their classification, on the strict observance of the above principles. In this case, States should, in the opinion of the Committee, be permitted to use unpublished figures to a very much greater extent than would be permissible if the figures were to be subject to juridical limitation. At the same time, States should undertake both to explain the methods they have used and to adhere to them for the duration of the Convention, provided that no administrative change or alteration in the accountancy system obliges them to modify the methods which they originally undertook to follow in filling up the Model Statement. In such cases, States should notify the Permanent Commission and explain the reasons for which they desire to alter their methods.¹

If this suggestion is followed, the subdivisions of the expenditure returns of each country will continue to have the same meaning as long as the Convention remains in force or, at least, the Permanent Commission will be able to ascertain what precisely is included under each subdivision of the Model Statement in the case of each separate State.

6. Conclusion. If a Convention for limitation and publicity of expenditure is adopted, instructions for its application will have to be carefully drafted. In the absence of a decision on principle, the Committee has, of course, not drawn up these instructions, but has only indicated what, in its opinion, should be the fundamental principles upon which such rules should be based.

When decisions of principle are taken, it will be necessary for each State to indicate clearly what derogations it is compelled to ask for in virtue of accounting or administrative exigencies, without, of course, infringing the fundamental principles of the system of limitation and publicity. Each of these derogations, which the Committee trusts will be few in number, must be accepted by the Conference when the latter specifies the limitation figures for each State. States will have to undertake not to make any derogations other than those allowed to them.

In addition, any derogation in the matter of classification made during a financial year subsequent to the signing of the Convention must be notified to the Permanent Disarmament Commission, such notification to be accompanied by detailed explanations as to the reasons.

¹ **NOTE.** — Major-General BARBERIS and M. WORBS point out a further defect in the system recommended in the present report. If there is a limitation Convention, it will obviously not be sufficient to communicate for purposes of publicity “administrative changes or alterations in the accountancy system”, but the Permanent Commission must also consider their effect on the figures, and this will not always be an easy matter. If it is decided not to take into account the resultant differences or to regard them as covered by the normal margins of error, there is a danger that injustice may be done.

APPENDIX I TO PART VI.

Country

Year

MODEL STATEMENT.

Table I.

LAND FORCES.

SUB-HEAD	CATEGORY OF EXPENDITURE	Armed forces stationed in the home country (optional)	Armed forces stationed overseas (optional)	Formations organised on a military basis stationed in the home country (optional)	Formations organised on a military basis stationed overseas (optional)	TOTAL
		(1)	(2)	(3)	(4)	
	HEAD I.					
	Effectives.					
	<i>Personnel normally forming part of formations and services:</i>					
A	Pay and allowances of all kinds: Officers.					
B	Ditto: N.C.O.s and men .					
C	Ditto: Civilian personnel.					
	<i>Personnel not normally forming part of formations and services:</i>					
D	Persons undergoing preparatory military training, reservists and reserve organisations					
E	<i>Maintenance of personnel referred to in subheads A to D</i>					
	HEAD II.					
	Transport.					
F	Horses and other animals, forage, harness and shoeing.					
G	Coal, fuel, oil, petrol, lubricants, etc., and other transport expenses . . .					
	HEAD III.					
	Buildings.					
H	Construction of new fortifications and defence works					
K	Barracks, other buildings, upkeep, furniture . . .					
	TOTAL: HEADS I TO III .					
	HEAD IV.					
	War Material.					
M	Arms, ammunition and fighting material . . .					
M(a)	Engineer and other warlike stores					
N	Expenditure not divisible between subheads M and M(a)					
	TOTAL: HEAD IV.					
	GRAND TOTAL.					

Table II.

NAVAL FORCES.

SUB- HEAD	CATEGORY OF EXPENDITURE	Armed forces (optional)	Formations organised on a military basis (optional)	TOTAL
		(1)	(2)	(3)
	HEAD I.			
	Effectives.			
	<i>Personnel normally forming part of formations and services:</i>			
A	Pay and allowances of all kinds: Officers			
B	Ditto: N.C.O.s and men. . . .			
C	Ditto: Civilian personnel . . .			
	<i>Personnel not normally forming part of formations and services:</i>			
D	Persons undergoing preparatory military training, reservists and reserve organisations			
E	Maintenance of personnel referred to in subheads A to D			
	HEAD II.			
	Transport.			
G	Coal, fuel, oil, petrol, lubricants, etc., and other transport ex- penses			
	HEAD III.			
	Buildings.			
H	Construction of new fortifications and defence works.			
K	Barracks, other buildings, upkeep, furniture			
	TOTAL: HEADS I TO III.			
	HEAD IV.			
	War Material.			
L	New construction			
M	Maintenance.			
N	Expenditure not divisible between subheads L and M			
	TOTAL: HEAD IV			
	GRAND TOTAL.			

Table III.

AIR FORCES.

SUB-HEAD	CATEGORY OF EXPENDITURE	Armed forces stationed in the home country (optional)	Armed forces stationed overseas (optional)	Formations organised on a military basis stationed in the home country (optional)	Formations organised on a military basis stationed overseas (optional)	TOTAL
		(1)	(2)	(3)	(4)	(5)
	HEAD I.					
	Effectives.					
	<i>Personnel normally forming part of formations and services:</i>					
A	Pay and allowances of all kinds: Officers.					
B	Ditto: N.C.O.s and men .					
C	Ditto: Civilian personnel.					
	<i>Personnel not normally forming part of formations and services:</i>					
D	Persons undergoing preparatory military training, reservists and reserve organisations					
E	Maintenance of personnel referred to in subheads A to D					
	HEAD II.					
	Transport.					
G	Coal, fuel, oil, petrol, lubricants, etc., and other transport expenses. . .					
	HEAD III.					
	Buildings.					
K	Barracks, other buildings, upkeep, furniture . . .					
	TOTAL: HEADS I TO III .					
	HEAD IV.					
	War Material.					
M	Arms, ammunition and fighting material. . . .					
	TOTAL: HEAD IV					
	GRAND TOTAL.					

Table IV.

TOTAL EXPENDITURE FOR THE THREE FORCES.

LAND FORCES	
NAVAL FORCES	
AIR FORCES.	
GRAND TOTAL	

Table V.

SPECIAL INFORMATION ADDED TO THE MODEL STATEMENT, IN PARTICULAR AS REGARDS NATIONAL DEFENCE PENSIONS.

1. Ordinary Pensions
Including pensions granted as a result of the reduction of armaments (optional).
- Other Special Information added to the Model Statement.
2. Difference between the initial amounts of the block credits voted for several years and any part of such credits already entered in the budget, including the budget for the year to which the Model Statement refers.
3. Difference between carry-forward credits—that is to say, credits which may be used for payments to be made during the year or subsequent years—and payments in respect of such credits shown in the accounts for the former
4. Authorisations to enter into commitments granted apart from credits voted in the budget of the year to which the Model Statement refers
5. Difference between the block credits contained in special accounts and payments already made against such accounts, including those made during the year in respect of which the Model Statement has been compiled, together with all other credits available in special accounts
6. Credit balances of autonomous establishments remaining at the disposal of those establishments
7. Amount liquidated and not paid for materials supplied and services rendered
8. Expenditure not included in the Model Statement for subsidies to or participations in private undertakings having among their objects the furnishing of war material in peace-time
9. Various information regarding unpaid services and supplies for national defence

APPENDIX II TO PART VI.

MODEL RECONCILIATION TABLES.

A. SUMMARY.

I. Total Expenditure inserted in Table I of the Model Statement (Land Forces).

Total expenditure of the Ministry of War (or Ministry of National Defence)
<i>To be deducted:</i>	
Non-military expenditure of the Ministry of War
Expenditure relating to Naval Forces
Expenditure relating to Air Forces
Sums the insertion of which would entail duplication

<i>To be added:</i>	
Expenditure for Land Forces borne on the budget of the Ministry of Marine
Expenditure for Land Forces borne on the budget of the Air Ministry
Expenditure for Land Forces borne on the budgets of the Civil Ministries:	
Ministry of
Ministry of
Ministry of
Ministry of

Expenditure from Special Accounts
" " " "
Reconstruction of the gross expenditure
Expenditure of the regional and local budgets
Expenditure of the Colonies

Total of Table I of the Model Statement (Land Forces)

II. Total Expenditure inserted in Table II of the Model Statement (Naval Forces).

Total expenditure of the Ministry of Marine (or Ministry of National Defence)
<i>To be deducted:</i>	
Non-military expenditure of the Ministry of Marine
Expenditure relating to Land Forces
Expenditure relating to Air Forces
Sums the insertion of which would entail duplication

<i>To be added:</i>	
Expenditure for Naval Forces borne on the budget of the Ministry of War
Expenditure for Naval Forces borne on the budget of the Air Ministry
Expenditure for Naval Forces borne on the budgets of the Civil Ministries:	
Ministry of
Ministry of
Ministry of
Ministry of

Expenditure from Special Accounts
" " " "
Reconstruction of the gross expenditure
Expenditure of the regional and local budgets
Expenditure of the Colonies

Total of Table II of the Model Statement (Naval Forces)

III. Total Expenditure inserted in Table III of the Model Statement (Air Forces).

Total expenditure of the Air Ministry (or Ministry of National Defence)
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To be deducted:

Non-military expenditure of the Air Ministry
Expenditure relating to Land Forces
Expenditure relating to Naval Forces
Sums the insertion of which would entail duplication
.....

To be added:

Expenditure for Air Forces borne on the budget of the Ministry of War
Expenditure for Air Forces borne on the budget of the Ministry of Marine
Expenditure for Air Forces borne on the budgets of the Civil Ministries:	
Ministry of
Ministry of
Ministry of
Ministry of

Expenditure from Special Accounts
---	-------

Reconstruction of the gross expenditure

Reconstruction of the gross expenditure :	
Expenditure of the regional and local	

Expenditure of the regional and local budgets

Expenditure of the Colonies

.....

Total of Table III of the Model Statement (Air Forces)

B. ANALYTICAL TABLE.

Distribution of Expenditure between the Tables of the Model Statement and their Subheads.

CHAPTERS, ARTICLES, PARAGRAPHS, OF THE ACCOUNTS			DISTRIBUTION OF THE TOTAL AMOUNT				OBSER- VATIONS ¹
No.	Heading	Total amount entered in the closed account	Sums excluded from the Model Statement	Sums included in the Model Statement			
				Amount	Num- ber of the table of the Model State- ment	Chapter of the Model State- ment	
1	2	3	4	5	6	7	8

¹ See page 173, *d* (Indication of derogations).

C. SYNTHETIC TABLES.

I. Table relating to Table I of the Model Statement.

LAND FORCES.

Chapters of the Accounts (To be filled in according to the headings in use in the country)		Amounts to be distributed (see column 5 of the Analytical Table)	Head I. — PERSONNEL					Head II. — TRANSPORT		Head III. — BUILDINGS		Head IV. — WAR MATERIAL		
No.	Abridged heading		Personnel normally forming part of formations and services		Personnel not normally forming part of formations and services			F Horses and other animals, forage, harness and shoeing	G Coal, fuel, oil, petrol, lubricants, etc., and other transport expenses	H Construction of new fortifications and defence works	K Barracks, other buildings, upkeep, furniture	M Arms, ammunition and fighting material	M (a) Engineer and other warlike stores	N Expenditure not divisible between subheads M and M (a)
			A Pay and allowances of all kinds Officers	B Pay and allowances of all kinds N.C.O.s and men	C Pay and allowances of all kinds Civilian personnel	D Persons undergoing preparatory military training, reservists and reserve organisations	E Maintenance of personnel referred to in subheads A to D							
I	2	3	4	5	6	7	8	9	10	11	12	13	14	15

Totals of Table I of the Model Statement.

II. Table relating to Table II of the Model Statement.

NAVAL FORCES.

Chapters of the Accounts (To be filled in according to the headings in use in the country)		Amounts to be distributed (see column 5 of the Analytical Table)	Head I. — PERSONNEL					Head II. — TRANSPORT	Head III. — BUILDINGS		Head IV. — WAR MATERIAL			
No.	Abridged heading		Personnel normally forming part of formations and services		Personnel not normally forming part of formations and services		E		G	H	K	L	M	N
			A	B	C	D								
			Pay and allowances of all kinds Officers	Pay and allowances of all kinds N.C.O.s and men	Pay and allowances of all kinds Civilian personnel	Persons undergoing preparatory military training, reservists and reserve organisa- tions	Maintenance of personnel referred to in subheads A to D	Coal, fuel, oil, petrol, lubricants, etc., and other trans- port expenses	Construction of new fortifications and defence works	Barracks, other buildings, upkeep, furniture	New construction	Maintenance	Expenditure not divisible between sub- heads L and M	
I	2	3	4	5	6	7	8	9	10	11	12	13	14	

Totals of Table II of the Model Statement.

III. Table relating to Table III of the Model Statement.

AIR FORCES.

[illegible]

Totals of Table III of the Model Statement,

Part VII.

SUPERVISION AND THE PUBLICITY REQUISITE TO ENFORCE IT.

INTRODUCTION.

In the previous parts of the present report, the Committee's chief object was to define the juridical basis of the Convention for the limitation and publicity of expenditure, to determine, in the present state of affairs, the technical possibilities of its application, and to prepare the instruments needed for its practical operation.

It is now necessary to describe the manner in which the execution of the Convention could be supervised. This supervision is based essentially on the verification of the transfer of the figures in the accounts to the statements of expenditure, but, if it is to produce its full effect, it must also be possible to follow the course of the national defence expenditure of States. The publicity accompanying commitments and the actual execution of budgets¹ will make it easier for the Permanent Commission to obtain the information needed to judge of the real nature of the national defence expenditure of each of the States which have signed the Convention.

In the present part of the report, efforts will be made in two separate chapters to explain what published data are needed for the supervision of the Convention and to formulate certain technical observations concerning the practical operation of this supervision.

¹ See Chapter V.

Chapter XIX.

PUBLICITY OF CREDITS AND PROOF OF THE OBSERVANCE OF LIMITATIONS.

A. GENERAL OBSERVATIONS.

1. Usefulness of Publicity.

Publicity is one of the essential features of the financial administration of modern States. Whereas under older regimes Treasury administration was usually kept secret, public opinion is now more and more anxious to follow the use made of the sums taken by the State each year from the national wealth for the working of the public services. The second part of this report showed the extent to which Parliaments exercise control over the public finances by the voting of the budgets, the granting of additional or supplementary credits in the course of the year and general supervision over the use to which credits are put. The manner in which supervision is exercised over the execution of the budget, of which the final act consists in the establishment of the final accounts, is also shown in the present report. The provisions of the laws or regulations promulgated for the purpose of communicating to the public periodical statements of commitments, orders for payment or payments, Treasury operations, the general accounts of the Finance Department, the statements and reports of the Court of Audit and other higher bodies responsible for the audit of accounts, have the same object in view.

It was only natural that, in order to procure for the future supervisory body all the data which may facilitate its work, the Technical Committee should have endeavoured to utilise this publicity to the greatest possible extent. Consideration will be given in this chapter to the question of the data which States can be asked to furnish for the purpose of assisting the Permanent Commission in its task of supervision without placing them, however, under too heavy a burden. In the Committee's opinion, the published data requested from States in regard to their expenditure figures should be accompanied by various particulars as to the system of public accounts and the actual nature of the various resources from which national defence expenditure is met.

2. Technical Conditions for Publicity.

In dealing with the problem of publicity, the Committee felt bound to lay down the technical conditions to be fulfilled by publicity with a view to the application of the future Convention.

This question is, in the Committee's view, of special importance: the Committee thinks that no machinery for publicity could be devised, nor could its form and purpose be determined, without previously defining the technical conditions essential for its working and effectiveness.

On this subject, the Committee was unanimous in recognising:

(1) That publicity must be *current*—i.e., supply information as rapidly as possible concerning the respective expenditures of the contracting parties likely to interest the Permanent Disarmament Commission;

(2) That publicity should be *general*—i.e., compulsory for all contracting parties;

(3) That it should be *simultaneous*—i.e., that communication should be made by the contracting parties as far as possible on the same date, and that the information supplied should refer to the same periods of time;

(4) That it should be *in sufficient detail* to fulfil the purposes of the Convention.

**3. Aims of
Publicity.**

In the light of experience gained during the course of its work, the Committee envisages publicity from two different aspects:

(a) Publicity which would constitute juridical proof of the fulfilment of obligations in regard to the limitation of national defence expenditure. It would enable the carrying out of these obligations to be supervised.

(b) Publicity which would be independent of proof of the limitation of national defence expenditure, but the purpose of which would be to inform the Permanent Disarmament Commission as to the expenditure of States on national defence and which would thenceforth furnish this Commission with very helpful data from the point of view of the supervision which it would be called upon to exercise.

The Committee desires to emphasise the differences existing between these two forms of publicity in view of the objects respectively assigned to them. Such a distinction between these two classes of publicity seems essential for avoiding any confusion in the interpretation of the subject dealt with in the present chapter. Notwithstanding their different objects, their external form and their degree of detail may, however, be the same.

The necessity for submitting expenditure figures within the uniform framework of a Model Statement was shown in Chapter III. In the Committee's opinion, the detailed information supplied in this statement would be the same for purposes of limitation and for purposes of publicity.

In the event of global limitation, it might be thought that it would be sufficient to produce a single figure for the total expenditure and that, in the event of the separate limitation of expenditure on each of the three armed forces and their respective war materials, it would be sufficient to supply one figure for each category of expenditure so limited. In reality, even in the event of the Conference's adopting global limitation alone, it would be necessary, in the Committee's opinion, to prove the observance of this limitation by means of a fairly detailed Model Statement. First, the correctness of all the figures which composed the grand total of national defence expenditure must be ascertained, and for this purpose all the items of expenditure under which these figures are entered must be analysed. The more detailed the Model Statement the greater the need for the analysis of the accounts in order to discover the true object of the expenditure, and the greater the efficacy of the supervision to be entrusted to the Permanent Commission. On the other hand, the heads of the Model Statement are indispensable to give an idea of the true object and allocation of the expenditure and to provide a true picture of the armament of each country. The supervision of a global limitation of expenditure on the basis of a detailed Model Statement will provide useful indications for estimating the economies realised by reductions made in armaments themselves—for instance, effectives and war material. It will also make it possible to bring about the realisation of the technical conditions necessary for the separate limitation of expenditure on the three forces and on land and naval material, a limitation which is difficult to achieve at present for the reasons set out in Chapters IX and X.

On the other hand, States cannot be asked to supply an over-detailed statement, the compilation of which would necessitate the splitting up of too many figures for allocation to the various heads.

**4. Publicity
unconnected with
the Proof of the
Observance of
Limitations.**

After examination of the conditions required in the case of publicity intended as proof of the fulfilment of obligations in regard to limitation, it is now necessary to consider to what extent supplementary publicity might be requested of States with a view to supplying the Permanent Commission with the data needed for the exercise of supervision. In this connection, the Committee thought that publicity should be laid down as a fundamental principle, the application of which would be limited only by the impossibility of imposing upon States obligations with which the administrations would be unable to cope.

The obligations which should be assumed in this sphere should help to enlighten the Permanent Commission as to the various financial efforts which States devote to their

national defence. The detailed information furnished by means of publicity will enable the true nature of the expenditure of the contracting parties to be traced within the framework of their obligations, and there is no doubt that supervision over the execution of the Convention will thus be made more effective.

This chapter will deal successively with:

- Publicity of credits based on parliamentary votes;
- Publicity of annual disbursements;
- Advisability of the communication of certain laws and regulations that may bear on national defence.

B. PUBLICITY OF CREDITS BASED ON THE BUDGETS.

1. Summary of Previous Efforts. This problem was considered before the Limitation Conference from two different aspects:

From the exclusive standpoint of publicity. — The Committee of Budgetary Experts of 1927 concluded that it was necessary to draw up a Model Statement of national defence expenditure based on the budgets as voted. It did not bring out in its report the arguments in favour of a statement of military expenditure actually incurred. M. JACOMET, former Chairman of the Committee of Budgetary Experts, furnished the Technical Committee with additional explanations from which it results that the production of a Model Statement based on estimates had in 1927 been looked at solely from the standpoint of publicity. The Committee of Experts of 1931 had emphasised the importance of the part played by Parliament and public opinion when credits are being voted. It is at this moment that Parliament and public opinion are most interested in the financial effort made for national defence purposes. The Committee of Experts had considered that, in the event of limitation, the competent organs (Government or Parliament) would be led to take the necessary steps to explain publicly how the credits to be asked for or voted would fall within the limits laid down by the Convention.

As legal proof of limitation. — For the reasons stated in the first part of the present report,¹ it is not possible to base limitation on Parliamentary votes; this publicity of estimated expenditure could not serve as juridical proof of the fulfilment of the obligations in regard to the limitation of expenditure, since the Committee proposes that this should be based on the payments effected.

Nevertheless, this publicity is of very great importance from the point of view of the Convention, and for this reason the National Defence Expenditure Commission decided, after a preliminary discussion, to entrust the study of the question to the Technical Committee.

Various proposals concerning this publicity have also been referred to the Technical Committee :

(a) The French delegation's proposal for the reference of budgets to the Permanent Disarmament Commission (Minutes of the Expenditure Commission, page 28).

(b) The German delegation's proposal concerning services not paid for in cash (Minutes, page 37); this proposal is connected with the publicity of expenditure in that it draws attention to the desirability of the Permanent Commission's being informed, not only of the estimated expenditure appearing in the budget, but also of the services and contributions which the State requires from its nationals.

¹ Chapter IV, page 24.

(c) The remarks of the Soviet delegation to the following effect:

“ 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.”

**2. Could Estimates
be used for
Publicity apart
from furnishing
Juridical Proof of
the Observance of
the Limitation
of Expenditure ?**

A few preliminary observations are necessary:

(a) *Generally, State expenditure and revenue form the subject of annual estimates and authorisations by the public authorities.* The necessity for balancing public revenue and expenditure is equally urgent for all States. Even when certain expenditure is not subject to express Parliamentary approval, estimates have to be drawn up which only differ from authorisations as regards their legal nature. Thus, there exist in the United States of America permanent credits, which are nevertheless contained in annual “ appropriations”. In the United Kingdom, the Consolidated Fund—which, by the way, does not include any national defence expenditure—is also the subject of annual estimates. It is when estimates are being drawn up and authorisations to incur commitments decided on that sums to be voted for public services give rise to discussion in the Parliaments. It is, moreover, at such a moment that public opinion passes judgment on the advisability of expenditure and on its allocation. Whatever be the legal significance of the voting of funds, their amount determines in the last resort the sum total of the payments that will be effected. If a Convention of limitation or publicity of armaments expenditure is concluded, it is certain that, when such estimates are authorised, it will be particularly desirable to ascertain the manner in which such estimates will fit in with the requirements of the Convention. For this reason, the Technical Committee considers that the Convention should contain certain technical provisions, the machinery of which will be communicated later, that would make it easier, at the moment when credits are being voted, to fulfil the contractual obligations imposed on all States by the Convention.

(b) *Credits are in general voted for one year.* There are, however, in certain countries, credits the unused surplus of which may be carried forward to succeeding years for the execution of building programmes or works which cannot be completed within the year for which the credit was voted.

At first sight, the existence of “ carry-forward ” credits may give rise to certain doubts as to the possibility of organising the publicity of annual credits. But it should be pointed out that the vote of these credits cannot, even during a period of stability, furnish an exact estimate of expenditure. The vote of these credits actually relates to the execution of programmes the date of completion of which can only be fixed approximately. The estimated expenditure in respect of the execution of these programmes is by the very nature of things subject to modification, and it is only later, as the work advances, that the exact amount of the expenditure can be finally fixed.

In this connection, the Committee considered whether it would not be possible to ask the States concerned what portion of these “ carry-forward ” credits they might intend to employ during the budgetary year. If each State were to announce the portion of these credits authorised for several years which it proposed to expend during the year, equally accurate, rapid and complete information would be obtained for all States; this would do away with certain anxieties caused by the length of time necessary for the legal proof of observance of limitation. The estimated sums to be disbursed during the year should indeed fit in with the contractual limits and render this limitation more effective.

The Committee thinks that, if this were done, the contracting States would be obliged, at the moment of the voting of the budgets with its attendant publicity, to take precautions to prevent the limits laid down for their military expenditure under the Convention being, even unintentionally, exceeded. These precautions would be particularly necessary as regards credits covering several years; for, if the amount of the payments to be effected during the year out of these credits was not carefully foreseen, it might happen that actual expenditure would exceed the limits of expenditure permitted by the Convention. Thus, as it is necessary to prevent the annual limits fixed by the Convention from being exceeded owing to an insufficient estimate of the annual instalments of such credits, it seems well that the Committee should recommend that each State concerned should mention the amount of payments which it intends to make out of "carry-forward" credits during the current year or "exercice".

The Committee recognised that, in re-establishing the rule of budgetary "annalité" in the international sphere, the existence of "carry-forward" credits would not form an obstacle to the publicity of annual estimates of expenditure.

(c) *The moment at which estimates are drawn up varies in the different countries.* This difference results from several causes. On the one hand, the dates of the beginning and end of the budgetary years not being the same, the work of framing the budget cannot be completed at the same date. Out of thirty-three States whose documentation the Committee examined, there were eleven States in which the budgetary year begins on January 1st and ends on December 31st, fifteen whose budgetary year begins on April 1st and ends on March 31st, and seven whose budgetary year begins on July 1st and ends on June 30th.¹ On the other hand, whilst in some States the budget must be voted before the beginning of the budgetary year, in others the budget is only finally drawn up several months after the beginning of that year. Lastly, when the work of preparing the estimates is not concluded by the date fixed by law, different States employ different methods to provide for the carrying on of the public services (see Chapter V, page 34). The above methods may sometimes involve a delay in the framing of the budgets of from three to six months after the beginning of the budgetary year. As regards differences between the dates of the commencement of the budgetary year, the Committee considered that their importance from the point of view of the requirements of publicity should not be exaggerated.² The variation in the dates for the beginning of the budgetary year in the different countries cannot endanger the sound working of the system of publicity; for, whatever the date may be, an exact idea can always be obtained, at the moment of the voting or fixing of the budget, of the financial effort put forward by the States for the purposes of national defence.

Moreover, considering that a delay of some six months in the despatch of information as a result of delay in passing the estimates of expenditure would cause great inconvenience,

¹ January 1st-December 31st

Austria
Belgium
Czechoslovakia
Finland
France
Lithuania
Netherlands
Roumania
Spain
Switzerland
U.S.S.R.

April 1st-March 31st

Albania
United Kingdom
Bulgaria
Denmark
Estonia
Germany
Greece
India
Irish Free State
Japan
Latvia
New Zealand
Poland
South Africa
Yugoslavia

July 1st-June 30th

Australia
Hungary
Italy
Norway
Portugal
Sweden
United States of America

² Major-General BARBERIS and M. WORBS, though recognising that this defect is not of great importance, desire that it should be pointed out to the Commission on Expenditure.

the Committee also considered whether it would not be possible to contemplate basing publicity on the draft budgets. It foresaw three possibilities:

(1) If the budget is passed before the beginning of the financial year, it should be used as a basis for publicity.

If the budget is not passed by the beginning of the financial year, there are two possible alternatives:

(2) The previous budget is extended in accordance with the national legislation. This former budget would be used as a basis for publicity.

(3) "Douzièmes provisoires" are passed or other provisional methods are applied (such as the system in the United Kingdom of passing certain votes by which the requirements of other votes are covered provisionally), but the draft budget is nevertheless drawn up at the beginning of the financial year.

The Committee recommends that, in that case, publicity should be based on the draft budget, as in all countries where there might be a delay in passing the budget, the draft budget is as a rule drawn up before or shortly after the beginning of the financial year. The States should, however, have the right to correct information thus published on the basis of draft budgets as soon as the budget has been passed or fixed by the competent authorities.

(d) *Estimates of expenditure are in general sufficiently detailed for publicity purposes.* Despite the divergencies that occur in this respect in the various countries, the estimates of expenditure may, in general, after the adaptations necessitated by the requirements of the future Convention, be taken as an adequate basis for publicity. Such adaptations will be found to be the more necessary in proportion as budgets are less detailed. Mention may be made in this connection of the case of the U.S.S.R., where the published budget only contains one aggregate figure for all national defence expenditure. The Committee wondered whether the Powers which, for internal reasons, give wide publicity to their official information might not be tempted, as far as the international domain is concerned, to resort to the lower level of publicity employed by other States which in this respect show themselves to be much less liberal. Accordingly, the Committee has considered it essential to point out to the Conference how necessary it is for certain States to make an effort to supply information as detailed as that of the other countries.

The Committee expresses the hope that the Permanent Disarmament Commission will be able, by virtue of the provisions of the Convention, and by appealing to the good faith of the contracting parties, to obtain from all States the widest publicity in regard to military expenditure.

(e) *The credits granted by the public authorities in the original budget do not cover all expenditure, supplementary credits being passed in the course of the year or credits being cancelled on account of unforeseen expenditure or economies.*

The Committee considered, in the light of the information supplied by the States, whether there were any great divergencies between the estimates of expenditure embodied in the *original* national defence budgets¹ and the expenditure actually incurred. Such divergencies may occur in two ways, either by a change in the purpose for which sums are spent as a result of *virements*, or else by the granting of supplementary credits or by the cancellation of credits owing to circumstances which could not be foreseen at the time when the budget was prepared. As a rule, such differences amount to less than 10 per cent of the total amount of the budgets concerned, though they are larger in so far as they affect the divisions and subdivisions of the budget. The appended table

¹ See Annex 10. Both as regards original estimates and as regards actual expenditure, the table shows only the budgets voted, excluding all expenditure entered in special accounts.

The sole idea of drawing up this table is to show the real importance of publicity of estimates of expenditure in the event of a Convention for publicity and limitation. The differences between estimates and actual expenditure would necessitate explanations which would differ according to the financial systems. The Committee therefore warns the reader against the difficulties inherent in an interpretation of this table.

shows that, in the twenty-six countries of which the estimates of expenditure and the actual expenditure of National Defence Ministries for the budgetary years 1929 to 1931 were examined by the Committee, the differences between the original estimates and actual expenditure may be classified as follows:

Estimates exceeded by 15 to 20 per cent in 2 cases									
"	"	"	10	"	15	"	"	"	4
"	"	"	5	"	10	"	"	"	12
"	"	"	2	"	5	"	"	"	6
"	"	"	up to	2	"	"	"	"	14
Total									38
Expenditure under-estimated by 15 to 20 per cent in 1 case									
"	"	"	10	"	15	"	"	"	2 cases
"	"	"	5	"	10	"	"	"	7
"	"	"	2	"	5	"	"	"	10
"	"	"	up to	2	"	"	"	"	14
Total.									34

It may thus be concluded, that in almost every case the excess as compared with initial estimates is not more than 10 per cent. This circumstance is of particular significance when it is remembered that at present the granting of supplementary credits in the course of the budgetary year is not legally limited. If a limit of expenditure is fixed by the Convention, these differences may be expected to decrease, and consequently the value of publicity in regard to estimates of expenditure will also considerably increase. The mere fact of the limitation of expenditure will moreover oblige the States to draw up their estimates with greater accuracy.

**3. Utility
of the Publicity
of Estimates
of Expenditure
in view of the
Length of Time
required for the
Publicity of
Payments effected.**

The dates for communicating the returns based on final accounts have been indicated above (see Chapter XV), and it has been seen that, in the nature of things, those dates would not meet the need for timely information, whatever effort might be made to reduce the delay inevitable in the communication of information based on the final accounts. This is an essential reason which justifies the publicity of estimates of expenditure, since this can take place with comparative rapidity.

The contracting parties might communicate to the Permanent Disarmament Commission, within two or three months of the entry into force of the Convention, information based on the budgets or draft budgets for the current year. Such information would of course be subject to a certain delay in cases where parent States communicate the expenditure of their oversea territories. The Committee considers that, if the information were to be supplied shortly after the entry into force of the Convention, it would be possible to follow the application of the Convention immediately. The rapid production of this information would greatly strengthen the contracting parties' feeling of security.

Such are the reasons which have led the Committee to conclude that publicity based on estimates of expenditure would be of great utility to the execution of the Convention.

**4. Methods
of Publicity for
Estimates
of Expenditure.**

The Committee considered two possible solutions:

(a) The presentation of expenditure in the form of a Model Statement;

(b) Publicity of aggregate figures of estimates of national defence expenditure in the form shown in the budgets.

(a) Since the publicity of estimates of expenditure is not to furnish legal evidence

as to the execution of obligations as regards limitation, it does not at first sight seem necessary that such publicity should take the same form as the Model Statement.

On studying the problem more closely, however, the Committee found itself obliged to take into account a number of arguments and considerations showing that the form and detailed structure of publicity for estimates should be the same as those adopted for the publicity of expenditure effected and should be equally specific. Account must be taken of the fact that the budgets and internal accounts do not show separately national defence expenditure within the meaning of the Convention, this expenditure being bulked in the budget and internal accounts with other expenditure not subject to limitation and publicity. As the Model Statement providing evidence of limitation will only contain the expenditure detailed in the conventional list, it is very important that the estimates of national defence expenditure within the meaning of the Convention should be presented in the same form as the expenditure effected, if it is desired to judge how the estimates compare with the limits fixed. Publicity thus conceived will then technically constitute a first step in the execution of the Convention.

Accordingly, the Committee is of opinion that the publicity of estimates of expenditure is a factor of great importance from the point of view of the observance of the stipulations of the Convention, although it cannot be substituted for the publicity of payments extracted from the closed accounts, which alone can provide juridical proof that the obligations as regards limitation have been respected. While realising that the submission of estimates of expenditure within the framework of the Model Statement will call for a certain effort on the part of States, the Committee considers that the establishment of such a Model Statement would be of a great moral, and it might also be said symbolic, value. Such a Model Statement would clearly show public authorities and public opinion the scope of the restrictions imposed on States by the Convention. It would show the necessity, during the execution of the budget, of keeping close watch by means of internal supervision for any overstepping of the contractual limits within which the estimates had previously been kept. The international obligations which each State would assume on signing a Convention for limitation of expenditure would thus take concrete and tangible form.

It would seem, moreover, that every country would be obliged to draw up a Model Statement for use at home in order to be able to bring the execution of its budget into line with the provisions of the Convention regarding publicity.

For all the reasons outlined above, the Committee feels justified in asking States to undertake the very considerable labour represented by the preparation of this Model Statement, and it considers that this solution would be particularly desirable for the first two years of the enforcement of the Convention, pending receipt of the first Model Statement based on the closed accounts. These statements of estimates of expenditure should be accompanied by the reconciliation tables referred to in Chapter XVIII. As regards subsequent years, it would perhaps be sufficient for States to send in their budgets to the Permanent 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.

If the Convention simply established a comprehensive limitation of all national defence expenditure, the communication of the aggregate credits might be regarded as sufficient, but the technical value of the publicity of credits would be reduced.

In the Committee's opinion, the Model Statement based on credits should be sent to the Supervisory Commission within a period not exceeding two months after the promulgation of these budgets.

**5. Publicity
of Other Documents
concerning
Estimates of
Expenditure.**

In all the States whose documentation was examined by the Committee, the establishment of estimates of expenditure (budgets) is preceded by a great deal of preparatory work carried out either by the Executive (draft budget) or by the Parliament (discussion in commission or in plenary meeting). Chapter V of the report describes the various stages of this work.

The Committee considers that the publicity of some of the documents drawn up during this phase might provide the Permanent Disarmament Commission with valuable technical information. The draft budgets as a rule contain more details than the budgets as voted and, further, the records of the discussions in plenary meetings might give information as to the significance of any changes made by the Parliaments in the draft budgets.

The value of these documents will not be complete unless they are sufficiently detailed and properly adapted to the requirements of publicity. The Committee therefore considers that certain States should undertake to supply more explicit documents than those hitherto submitted, while States whose documents appeared to be sufficiently complete and adapted to the requirements of the Convention should undertake that they retain the same practical value.

The Committee thinks, however, that Governments should not be asked to supply a multitude of documents, and in particular the Minutes or official records of parliamentary discussions. These documents often involve problems relating to the internal policy of the States which it would be inadvisable to raise in the Permanent Commission. Such encroachments must be avoided at all costs.

Lastly, the Committee considered the desirability of communicating any finance laws amending the original estimates of expenditure or authorising further expenditure in the course of the financial "exercice". This question is examined in fuller detail in part D of the present chapter.

C. SPECIAL PUBLICITY WITH REGARD TO ANNUAL DISBURSEMENTS.

In view of the length of the period which is bound to elapse before the final accounts can be produced, the Committee of Budgetary Experts, in Chapter 6 of its report, considered the possibility of inviting the Governments to prepare—solely with a view to the application of the Convention—separate accounts showing payments actually made during the twelve months of the financial year. These accounts would enable the States to make known by a fairly early date the full amount of the payments actually made for national defence purposes in the course of the financial year. The Committee of Budgetary Experts recommended that States should be asked to take such steps as might be necessary to have these separate accounts authenticated by the competent authorities. This proposal was revived by the French delegation.

The Technical Committee was unable to proceed to a thorough examination of this proposal, since very few States were in a position to supply information as to the possibility of introducing such a system of special accounts. Nevertheless, the Committee did not overlook the interest and importance of this problem, which it duly studied.

In all countries, the agents of the Treasury (disbursing officers) keep annual accounts of the sums which they actually pay out. In countries where there is no additional period, it is the totals of such payments made during the twelve months which are entered in the final annual accounts. In countries with additional periods, on the other hand, the payments made in the course of a given period of twelve months include, not merely those arising out of the execution of the current budget, but also those effected during the additional period of the preceding year. The payments made in the course of twelve months therefore do not correspond to the payments of the financial "exercice" in the final accounts. By taking a sufficiently long period, however, there can be no doubt that the sum of the payments entered in the twelve-monthly accounts (payments made during the twelve-months period in respect of the current budgetary year

and the additional period of the previous year) should to all intents and purposes equal the sum of the payments entered in the final accounts for the financial "exercice" corresponding to the same period. Hence, the production of twelve-monthly payment accounts would supply the Permanent Disarmament Commission with very valuable periodical information on the total amount paid out by each State each year and would enable it, even before legal proof of compliance with limitation was forthcoming, to form an opinion of the extent to which the total annual disbursements were conforming to the limits fixed.

It is, however, self-evident that these accounts of annual disbursements drawn up immediately after the end of the twelve-month period could not show the same detail as the final accounts. In most cases, they could only show the aggregate figure of national defence payments within the meaning of the Convention. The advantage of having such accounts compiled would consist in the promptness with which they could be made public. The production of such figures could not, however, be used as juridical proof of compliance with the limitation of expenditure, as they would not possess a sufficient degree of authenticity such as is conferred, in the case of the final accounts, by an audit by the supreme audit authorities. Should it be found that the introduction of twelve-monthly accounts was feasible in all countries, the States would have to state the aggregate amount of payments made in respect of national defence during the twelve months of the year, and at the same time produce a short reconciliation table showing how the full amount was distributed between:

- (1) The budgetary accounts of the defence ministries;
- (2) The budgetary accounts of the various civil departments;
- (3) The expenditure effected out of extra-budgetary resources.

The Committee is of opinion that these twelve-monthly returns of payments made could not be submitted in the form of a Model Statement. They could reach the Permanent Disarmament Commission within two months after the end of the financial year.

In the case of countries with supplementary periods, the Committee also considered the possibility of the speedy production of accounts of payments made during the financial "exercice". The drawing up of such accounts presupposes that the accounts of payment made are closed at the end of the supplementary period and thus permit of the deduction of payments made during the previous supplementary period. These conditions are not fulfilled in all States. It would also be impossible for such accounts to be submitted in the form of Model Statements. This solution would have the advantage of showing the payments relating to the financial "exercice" which would be entered in the Model Statement. In view of the length of the additional periods and of the recommendations regarding their curtailment, and in view of the time required for preparing annual accounts of disbursements, the Committee considers that the latter could be produced within a period of seventeen months after the beginning of the financial year.

The enquiries conducted by the Committee on this point are bound to be merely provisional in character and the problem will have to be subsequently reconsidered in the light of more definite information which the Governments would be requested to supply and which would enable it to be ascertained in all cases whether such accounts could be drawn up in practice.

D. PUBLICITY OF FINANCIAL DOCUMENTS.

1. General Remarks.

As has been seen on several occasions in the present report, in order to ascertain to what extent States are carrying out the provisions of the Convention, it is not only necessary to verify the manner in which the figures of national defence expenditure taken from the closed accounts have been transferred to the Model Statement. To determine the real character of the expenditure, it is also essential to be informed of the laws and regulations by which such expenditure is governed. This necessity was realised more and more clearly by the Committee as its work proceeded and as the documents submitted by the various delega-

tions were examined. The Committee constantly felt the need for enlightenment, by a knowledge of the legislative and administrative provisions, as to the real character of the expenditure in order correctly to interpret the figures furnished by States. It was thus in a position to realise the importance which the Permanent Disarmament Commission would attach to the communication by States which signed the Convention of certain laws, regulations and public documents relating to national defence.

To determine the character of the documents which the Permanent Commission should have at its disposal for consultation, there are two essential considerations:

(a) It will be sufficient if the information produced is restricted merely to national defence expenditure enumerated in the conventional list (see Appendix I to Chapter II of the present report).

(b) In each State there are special conditions resulting from its economic, political and administrative structure and from its traditions. The study of legislative and administrative provisions is the only manner in which an opinion can be formed as to these special conditions, a knowledge of which is indispensable in order to exercise well-informed supervision.

In this connection, the procedure followed by the Committee in examining the documentary material of the States has enabled it to collect valuable information.

In order to understand the meaning and the justifiability of the expenditure figures entered in the Model Statement, the Permanent Disarmament Commission will, like the Technical Committee, be obliged to ask States for explanations. In order to grasp the scope of these explanations, the Permanent Commission should be able to consult a certain number of laws and regulations which must be sent to it either periodically or on special request.

2. Purposes for which the Various Particulars to be supplied by States are required.

It is not possible at present to draw up a complete and detailed list of the laws and regulations which States should be requested to furnish. The general principles which must guide the investigations of the Permanent Commission have, however, been laid down in various parts of the report. For practical purposes, it would appear to be of special value for the Permanent Commission to have particulars relating to:

(a) *National defence expenditure entered in the budgets and accounts of the State, provinces and communes; the powers and rôle of the various constitutional authorities in preparing and voting the budgets; the dates of the various stages in the adoption of the budgets; the degree of detail with which expenditure is set out in budgets and accounts and the extent to which these are published.*

The Permanent Commission will thus possess the general information necessary to understand the special situation of each State and will likewise be in a position to devote its particular attention to certain special problems relating to its supervisory work.

(b) *Credits opened apart from the budget, either by special laws or by administrative action.*

(c) *Subsidies to and participations in private firms manufacturing war material in time of peace.*

States should be specially asked to explain the powers of the Government as regards the granting of subsidies to private firms manufacturing war material in time of peace and also to state what private armament firms are subsidised by the State and what is the amount of the financial participation of the State in such firms. The above remarks in regard to private firms also apply to State establishments.

(d) *Autonomous establishments.*¹ It would be useful for the Permanent Commission

¹ The problems connected with autonomous establishments have been dealt with in Chapters VII and VIII of the present report. See pages 69-71 and 81.

to have the annual accounts of these establishments and definite information of the sums paid by the State in return for materials delivered or for capital investment.

(e) *Exemptions and special advantages which are granted to military departments and which may reduce certain national defence expenditure without at the same time involving a reduction of armaments.*

As, for economic reasons, the Convention cannot compel States to adopt uniform rules in regard to the exemptions and special advantages granted to national defence services, the Committee thinks it would be advisable for the Permanent Disarmament Commission to have information as to the existing laws and regulations establishing those exemptions.

(f) *Services rendered free of charge to national defence and resulting in a diminution of the financial burdens of the State.*

This problem has been dealt with in Chapters IV and XVII of the present report. It may merely be pointed out here that the Committee has recommended attaching to the Model Statement particulars regarding unpaid services in cases where their volume has to be estimated or where, though an estimate is impossible, information is nevertheless required as to their nature and volume.

3. Conclusion.

The practical object of the communication of certain laws, regulations and public documents relating to national defence is to place the Permanent Commission in possession of such information that, by consulting it, it may ascertain under what conditions and in what manner the States will sign the Convention and to form an opinion, while the Convention is in force, as to how the contracting parties are carrying out their obligations.

The extent of this publicity should be limited by the necessity to avoid imposing upon States and the Permanent Commission work which does not strictly correspond to the requirements of the Convention.

E. STANDARDISATION OF NATIONAL DEFENCE BUDGETS AND ACCOUNTS.

At the sixteenth meeting of the National Defence Expenditure Commission, on May 6th, 1932,¹ the German delegation submitted 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 in a uniform model in accordance with the principle that the Model Statements must be drawn up on a uniform basis.²

“(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,³ 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’.”

¹ See Minutes of the National Defence Expenditure Commission, page 18.

² This question has been dealt with in Chapter XVIII of the present report.

³ As a matter of fact, this quotation refers to the report of the Preparatory Commission for the Disarmament Conference (document C.690.M.289.1930.IX, page 21).

The Technical Committee realises that, if the German delegation's proposal could be carried out, this would be of great importance from the standpoint of the strict and uniform execution of the undertakings entered into by all the contracting parties.

But, on the other hand, it has to consider the diversity of the accountancy systems now in force and the difficulty of introducing into those systems the important changes which would be necessitated by the standardisation of national defence budgets and accounts. The present form of the accounts, with all their diversity, corresponds to necessities or administrative tradition.

For example, in many cases, for reasons of economy and in order to avoid over-complicated administrative machinery, certain national defence expenditure is borne by civil budgets, or civil expenditure is included in the budgets of national defence departments. It would be difficult, then, to ask States to renounce in a moment methods already sanctioned by experience. Moreover, the Committee does not regard the diversity of the systems of accountancy now in force as constituting in itself an insurmountable obstacle to the proper application of a system of limitation or publicity of expenditure, since the Model Statement makes it possible to eliminate such formal differences.

The present report has none the less brought out repeatedly the advantage that might be derived from the standardisation of national defence budgets and closed accounts on lines in conformity with the requirements of the future Convention. If those budgets and accounts were presented under heads corresponding to the divisions of the Model Statement and the tables annexed thereto, this would avoid the necessity of splitting up sums and making computations in order to determine the expenditure to be entered under the various appropriate heads and sub-heads. The establishment of the Model Statement and annexed tables and that of the reconciliation table, the examination of that table by the Permanent Commission and, in general, the exercise of supervision by the Commission, would be greatly facilitated.

Further, it is permissible to hope that, by reason of the difficulties that States will encounter in filling in their Model Statement correctly, they will be led to amend the method of presenting their accounts and budgets in order to adapt them better to the requirements of the Convention.

F. CONCLUSIONS.

While the Committee considers that only audited accounts of payments can form the legal basis of the Convention, and that only the Model Statement of payments effected extracted from the closed accounts can serve as evidence that contractual obligations have been carried out, it thinks it should recommend Governments to adopt in addition a system of publicity. This publicity would involve publicity of the estimates of expenditure within the framework of the Model Statement and special publicity of annual disbursements. Provision should also be made for the communication by the various States to the Permanent Disarmament Commission of the draft budgets, the budgets voted, the final accounts and certain laws and regulations concerning the financial administrations of the national defence departments.

In the view of the Committee, this supplementary publicity could be carried out fairly rapidly and would, to some extent, permit of preventive supervision over the obligations of the contracting parties. It would largely obviate the disadvantage of the long period which is necessarily involved in the publicity of audited figures of payments extracted from the closed accounts. The Permanent Commission, which would receive in turn the Model Statement of expenditure estimates a few months after the beginning of the financial year, the account of annual disbursements shortly after the end of that year and, lastly, the Model Statement of payments effected, might, by using the other documents the communication of which is also provided for, be progressively informed as to the real destination of national defence expenditure, and as to the fulfilment by the various States of their treaty obligations. The feeling of security of the contracting States would thus be strengthened.

The Committee is, moreover, of opinion that the very fact of executing the Convention will gradually lead the States to change the manner in which they present their budgets and accounts of national defence expenditure, in so far as this is necessary to bring it into harmony with the requirements of the Convention. These changes would strengthen the efficacy of the supervision exercised through the combined mechanism of publicity and limitation which the Committee has prepared, and would greatly simplify its working.¹

¹ See the reservation made on page 131 by Major-General BARBERIS and M. WORBS.

Chapter XX.

TECHNICAL OBSERVATIONS REGARDING THE SUPERVISION BY THE PERMANENT DISARMAMENT COMMISSION OF THE APPLICATION OF PROVISIONS RELATING TO THE LIMITATION AND PUBLICITY OF EXPENDITURE.

**Basis of
Supervision over
the Limitation and
Publicity of
Expenditure.**

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, in certain special matters, other machinery than that proposed by the Bureau for the exercise of supervision would be better adapted to the special technical features of such cases. While noting that a sub-committee of the Bureau, in a subsequent document (document Conf.D./Bureau 39), amended the wording of the original report on supervision, the Technical Committee has complied with this request and has made some recommendations in regard to the supervision of the application of the provisions of the Convention in respect of the limitation and publicity of expenditure.¹

This supervision will involve examination of the accuracy of the figures—that is to say, the verification of the figures for payments entered in the Model Statement.

It must be exercised, not only on the basis of the accounts and particulars supplied by the States, but also in the light of a continuous study of the expenditure devoted by each State to its national defence; this study will be carried out with the help of the documents which will be at the disposal of the Permanent Commission.

**Other Tasks
of the Permanent
Commission in this
Sphere.**

In addition to these activities, the Permanent Commission will, in accordance with the recommendations contained in the present report, be entrusted with the following tasks in the sphere of the publicity and limitation of expenditure:

(1) The Commission will have to examine and take decisions on the requests made by States for the readjustment of the limits in cases of fluctuations in purchasing power (see Chapter XII).

(2) It will have to express its opinion as to the existence of the conditions required for the deduction of exceptional and unforeseeable expenditure (see Chapter XV).

A. VERIFICATION OF THE PAYMENT FIGURES ENTERED IN THE MODEL STATEMENT.

**1. Object of the
Verification.**

In Chapters VII to X, the Committee has explained the *object* of the verification which it will be the duty of the Permanent Commission to undertake. The latter will be called upon to verify the following three categories of figures:

- (a) The total national defence expenditure (Chapters VII and VIII).
- (b) The total expenditure of each of the three forces and expenditure for land material and naval material (Chapters IX and X).

¹ The above-mentioned documents of the Bureau have not yet been approved by the Conference. It is therefore understood that the observations in the present chapter, made with reference to the conditions described in those documents must necessarily be of a provisional nature and, should the Conference not approve the Bureau's proposals, its decisions will have to be borne in mind as regards the supervision of budgetary limitation and publicity.

(c) The figures entered in the various sub-heads of the Model Statement and in the publicity items annexed to the Model Statement properly so called (Chapters XVI and XVII).

It is most important to verify the total figure of expenditure under (a), since its correctness depends on the correctness of the figures under (b) and (c). The figures under (b) must also be checked, since their correctness depends on that of the figures inserted in the various sub-heads of the Model Statement. The figures inserted in the items annexed to the Statement properly so called will form the subject of a special verification.

**2. Documentation
at the Permanent
Commission's
Disposal.**

Together with the Model Statement, each State will be required to submit *reconciliation tables*. In Chapter XVIII, the Committee proposed definite rules for the drawing-up of those tables which, in the Committee's opinion, constitute one of the essential means of exercising supervision.

In order to check these figures, the Permanent Commission will also have at its disposal—as explained in Chapters VIII and XIX—a certain number of documents:

- (a) The general accounts of the State;
- (b) The accounts of the federated States (such as the cantons in Switzerland, the separate States in the United States of America, the Länder in Germany, etc.).
- (c) Statements of payments showing the national defence expenditure effected by local authorities, such as communes, districts and provinces;
- (d) Certain laws and certain regulations (see Chapter XIX).

The Commission should also be entitled to request the States to communicate, if necessary:

The accounts of a local authority (commune, district, province or department), should the accounts of that authority include national defence expenditure.

**3. Further
Particulars.**

It is possible, however, that the Permanent Commission may be obliged to ask Governments to supply further particulars.

In the above-mentioned text (document Conf.D./Bureau 39), it is stated in Article 7 that the Permanent Commission " may request the High Contracting Parties to supply, in writing or verbally, any supplementary particulars or explanations in regard to the said information which it may consider necessary. "

This provision would appear to be quite adequate from the point of view of the budgetary method.

The Committee is satisfied that the foregoing text merely refers to the Permanent Commission's right to ask Governments to furnish these further particulars and does not imply that the Permanent Commission shall be entitled to *require* them to furnish these particulars.

In connection with the execution of the supervision of expenditure, the Committee considered the question how to interpret in the budgetary sphere the provisions of Article 7, which confers on the Permanent Commission the right to ask for any further particulars or explanations.

In order to render the execution of supervision as elastic and as little irksome as possible, the Technical Committee considered it expedient to define the Permanent Commission's rights on this point. It accordingly submits the following suggestions to the Conference.

In this respect, it should be pointed out in the first place that—in view of the great reliance which the Committee thinks should be placed on figures inserted in the closed

accounts (see Chapter VI)—the Committee does not consider it necessary or advisable as a general rule to ask for further particulars or explanations in order to check the correctness of the figures inserted in closed accounts which are audited and published by the Courts of Audit or by other high supervisory organs.

This general rule must be supplemented. It has been stated above that the essential object of the supervision must be to verify the correctness of the total figure. In view of the capital interest of ascertaining this figure with accuracy, it would appear necessary to provide that the Permanent Commission be entitled to ask the State concerned for any further particulars and explanations *in cases* where it might have reason to think *that any particular national defence expenditure has been excluded from the Model Statement*. For instance, if the Commission has reason to believe that expenditure which should be regarded as national defence expenditure is included in a figure entered in the accounts of a civil department, it might ask for internal documents showing how that figure was made up.

When examining in the documents the national defence expenditure entered in civil budgets together with civil expenditure, the Committee also found that the expenditure in question is often administrative expenditure regarding which Governments have no difficulty in furnishing the necessary explanations.

It would appear that the same rule should be applied in respect of the total expenditure on the three forces and expenditure on land and naval material, in cases where these totals are subject to a Convention of limitation.

When it is necessary, however, to examine the accuracy of the figures entered in the various subdivisions of the Model Statement for the sole purpose of publicity, the Committee does not consider that the importance of these figures is sufficient to warrant the Permanent Commission's asking for any further particulars or information to enable them to be checked. The Technical Committee has no intention of proposing a special stipulation restricting the rights conferred upon the Permanent Commission by the Bureau's report. It merely wishes to state that publicity figures appear to it to be of less importance than figures which are subject to limitation and that, on this account, supervision can be less strict in the case of the items of the Model Statement drawn up with a view to publicity.

It has been pointed out that the exercise of strict supervision for the limitation of expenditure might require the presentation of documents usually regarded as secret. In connection with this remark, the Committee wishes to observe that, for the purpose of checking the accuracy of the total national defence expenditure, it will, in its opinion, be sufficient to refer, by means of the reconciliation table, to the closed accounts and, if necessary, to ask for certain additional particulars which are not of a secret nature.

Moreover, the Committee, while considering separately the application of the procedure for a readjustment of the limits in the case of fluctuations in the purchasing power of currencies and the deduction of unforeseeable and exceptional expenditure, examined the question whether the strict supervision of the proofs and evidence supplied by Governments would not involve the production by them of certain data, such as contracts or statistics, which are not usually published by those Governments.

Although this is a general problem relating to the exercise by the Permanent Disarmament Commission of supervision over all the contractual obligations resulting from the Convention, which must be finally settled by the Conference itself, the Technical Committee does not consider that it is exceeding its province in expressing the opinion that, in the foregoing cases, the Permanent Disarmament Commission might, for practical purposes, content itself with the explanations furnished by Governments without requiring the latter to produce unpublished documents.¹

¹ NOTE. — Colonel KISSLING and Mr. LYON expressed the opinion that, while as a general rule the production of unpublished documents would not be necessary, this might have to be contemplated in exceptional cases.

**4. Local
Investigations.**

Articles 10 to 14 of the above-mentioned document (Conf.D. Bureau 39) contain certain provisions regarding *local investigations*.

The Technical Committee wishes to point out that, in its opinion, the supervision of the limitation of expenditure will certainly only rarely call for local investigations. Indeed, it would appear probable that, in practically all cases, supervision may be exercised on the basis of published documents and supplementary particulars and documents furnished by the States.

The Technical Committee has observed that, according to the Bureau's report, the Permanent Commission must in each case define the *subject* of the investigation. The scope of this stipulation may appear to be clearer in the case of direct methods than in the case of the limitation of expenditure. The accounting system of a State is generally centralised for obvious reasons. The accounts form a whole. Under the pretext of supervising a particular point, it would be possible, if no limit is placed on the exercise of this supervision, to investigate all the accounts of the States, in which case supervision would exceed the limits fixed in the Convention.

In order to render effective the guarantees which the Bureau's report appears to have desired to give as regards the extent of local investigations, some further qualification should be added in the case of the budgetary method. In this connection, the Committee considers that the Commission of Enquiry must not itself have the power to examine the accounts in order to discover the object of the investigation.

**B. STUDY OF THE EXPENDITURE DEVOTED BY STATES
TO NATIONAL DEFENCE.**

According to the general idea which the Committee has formed of the execution of obligations in respect of the limitation and publicity of expenditure, the supervision must not be confined merely to checking the figures entered in the Model Statement.

The Committee has provided for the preparation of supplementary Model Statements based on estimates of expenditure; it attaches great importance to the voting of military credits and, for this purpose, has recommended the publication and communication of a number of documents containing information regarding the preparation, presentation, voting and execution of the budget. In particular, it has referred to the necessity for ascertaining to what extent appropriations voted are in accordance with treaty limitations.

The Committee has made these proposals in order to enable the Permanent Disarmament Commission to follow the development of the expenditure devoted by the States to their national defence. In the Committee's opinion, the experience gained by such observation will be the chief means of perfecting the system of supervision during the period of application of the Convention.

C. ADMINISTRATIVE QUESTIONS.

The Committee has noted that the report adopted by the Bureau with regard to supervision provides for the subdivision of the Permanent Commission into sub-committees to which the preparation of the work will be entrusted. The Committee has also noted that the Permanent Commission may obtain the co-operation of experts chosen by itself and that the secretariat of the Permanent Commission would be entrusted to the Secretariat of the League of Nations.

The above observations show that the task to be assumed by the Permanent Commission with a view to supervising the execution of a Convention for the limitation and publicity of expenditure will be a very important one. It will demand special knowledge in matters of public accountancy and general and military administration. The volume of work will be considerable and the supervision will be permanent.

For these reasons, the Committee considers it desirable that one of the sub-committees to be appointed should deal specially with questions relating to the limitation and

publicity of expenditure. It also seems necessary to provide that this sub-committee shall have at its disposal experts with special knowledge of military budgets and public accountancy and practical general and military administrative experience. It would hardly be sufficient to have recourse to the help of these experts merely in special cases; their continuous co-operation should be ensured. Moreover, the secretariat of the Permanent Commission should be provided with a certain number of officials possessing expert qualifications.

Part VIII.

Chapter XXI.

THE EXPENDITURE ON ARMAMENTS OF THE VARIOUS COUNTRIES DOES NOT PROVIDE A CRITERION FOR COMPARING THEIR ARMAMENTS.

1. Introduction. It will have been clear from the present report that the military institutions in the various countries differ considerably, as do their administrative and financial methods. The presentation of the military expenditure of the States in a uniform Model Statement has the undoubted advantage of enabling all the States to submit evidence in the same form regarding the carrying out of their obligations, in spite of the differences in the arrangement of their accounts. The Model Statement cannot, however, do away with the differences inherent in the nature of things and in the differences of national institutions. This uniform framework conceals facts which have no resemblance to one another and which therefore are not susceptible of comparison.

2. There is no Common Measure for the Comparison of Armaments Expenditure. The impossibility of comparing the armaments of the different countries on the basis of their armament expenditure arises primarily from the fact that there is no satisfactory common measure between these expenditures. Even in periods when the national currencies are stable, the internal prices of the different countries may vary as a result of circumstances, and no conversion of the successive figures of expenditure into any currency selected as a standard will indicate the variations in internal prices and in the cost of armaments themselves. When, as at the present time, the currencies themselves are subject to fluctuations while internal prices remain relatively stable, the expression in a selected currency at any given date of the figures of expenditure of the various States produces absurd results if any attempt is made to compare on this basis either the successive expenditures of one State or the separate expenditures of various countries.

In the case, for example, of a country whose currency, after the abandonment of the gold standard, depreciated by 30 per cent while internal prices remained more or less stable, the conversion into dollars of expenditure in recent years on national defence would lead to the conclusion that such a country had decreased its expenditure by 30 per cent, whereas the figures of expenditure, expressed in the national currency, have remained constant and allowed of its armaments to be maintained at more or less the same level.

The results would, moreover, vary according to the currency chosen as a standard

for such comparisons. The table in note ¹ shows the absurd results which would be produced by such conversion; in this table, the expenditure of two countries, expressed in national currency, are taken as having remained constant for the years dealt with.

The expenditure of the United Kingdom expressed in francs is shown as having decreased by 26.5 per cent. If expressed in dollars, the decrease would amount to 25 per cent.

The expenditure of France expressed in pounds sterling would have increased by 38.6 per cent.

As internal prices in the United Kingdom and France have only varied within narrow limits, the same expenditure would have enabled these two States to secure for the two years in question approximately the same amount of armaments.

It is therefore impossible to make any comparisons between the expenditures of various countries, as no common measure exists.

**3. The Level of
Expenditure varies
with the Type
of Army
Organisation.**

The impossibility of comparing armaments by means of expenditure arises also from the fact that the various armies are organised on widely differing bases.

The cost of a professional army is, generally speaking, higher than that of a conscript army for the reason that, in order to attract volunteers, sufficiently good conditions of life, and hence sufficiently high pay must be offered.

In a conscript army, a reduction of the period of service beyond a certain limit might lead to a relative increase of expenditure, owing to the fact that it would become necessary to employ civilian labour for the performance of administrative duties and to engage professional soldiers for the training and organisation of the army. The increased expenditure arising from such measures might be higher than the economy secured even by the decrease in the number of effectives.

**4. Differences in
the Rates of Pay for
Personnel and in the
Maintenance Costs
of Effectives.**

Considerable differences also exist between the rates of pay of the personnel in the various countries and in the maintenance expenditure on the effectives (food, clothing, equipment, lodging, heating, light and sanitary services); the standard of life of the effectives in each country is dependent upon the general conditions of the national life, customs and climate.

The Committee has carried out some comparative enquiries into the cost of pay, the results of which are shown in an annexed table.² The Committee found that, apart from the impossibility of finding any common measure, it was very difficult, owing to the differences in the regulations affecting personnel and the rules for the issue of pay and allowances, to form any sound opinion as to the conditions governing the remuneration

1

	In national currency	With the same currency unit			Average rate of exchange into dollars	Average rate of exchange into pounds sterling	Average rate of exchange into francs
		Pounds sterling	Francs	Dollars			
October 1930-September 1931:							
United Kingdom	£ 100,000,000	100,000,000	12,380,000,000	483,000,000	4.83	—	123.8
France.	Fr. 12,500,000,000	101,000,000	12,500,000,000	490,000,000	3.92	0.803	—
October 1931-September 1932:							
United Kingdom	£ 100,000,000	100,000,000	9,100,000,000	360,000,000	3.59	—	91.4
France.	Fr. 12,500,000,000	140,000,000	12,500,000,000	490,000,000	3.92	1.095	—

² See Annex 12, Table I.

of the various military personnels. It is, however, clear from the figures collected that the rates of remuneration for personnel differ very considerably from country to country.

5. Various Factors which may affect the Cost Prices of Materials.

The cost price of material is influenced primarily by the differences in the cost of labour, of raw materials and of overhead charges. The Committee has endeavoured to ascertain whether any comparison was possible between the prices of labour and of raw material in the various countries. Some information on this subject will be found annexed.¹

The particulars regarding the cost of labour are taken from data recently obtained by the International Labour Office from the statistical departments of various countries. The Office, however, drew the Committee's attention to the fact that the figures produced differ considerably in character from country to country and, in certain cases, from one occupation to another in the same country. Sometimes they relate to actual earnings, sometimes to so-called standard wage-rates, and sometimes to minimum wages. Everyone is aware of the great difference between these three ideas and of the wide margin between, for instance, the figures for minimum wages and actual earnings. Further, it should be remarked that an apparently uniform heading may conceal differences in fact—*e.g.*, standard or minimum wage-rates do not mean the same thing everywhere. The figures, therefore, do not represent the actual facts except in varying degrees for different cases, which makes any close comparison quite impossible.

Apart from this drawback, there are certain factors for which wage statistics cannot make allowance, but which, nevertheless, play an important part in the final cost of labour. This is true particularly of the various social charges: family allowances, paid holidays, employers' contributions to social insurance and other forms of assistance. Lastly, it should be observed that it is virtually impossible to get average wages for a specific country, because wages vary from town to town, and these differences in one and the same country may in some cases be as great as those between towns in different countries.

The Committee also endeavoured to ascertain for certain countries the *wholesale prices of certain raw materials* specially used in the manufacture or construction of war material (pig-iron, steel, coal). These prices, together with those of certain articles or commodities in current use by the armed forces, are shown in a table which is also appended to the Annex.² It must, however, be said that, though the table states in every case the qualities selected, the way in which the prices are shown often varies considerably (different products, different qualities, addition or omission of transport costs, rebates, etc.), and that hence these prices do not permit of a strict comparison.

Similarly, the conclusions to be drawn from a comparative study of *goods transport rates* in different countries have no practical value, owing to the multiplicity of tariffs and the diverse ways in which they are applied, even in the case of certain standard goods. It is quite impossible to compare the tariff rates of the various countries, whether for goods or for distance. Even the general tariff of each country does not give an exact idea, owing to the different classifications employed. Even more serious difficulties would perhaps be encountered if an endeavour were made to institute a comparison between the passenger rates in the various countries.

Whether, therefore, we take the cost of labour, the cost of raw materials used in manufacture, or the cost of transport, no comparison between these components of the cost price is possible.

There are, however, other elements in determining a cost price which depends to a large degree on the amount of capital that is invested in the factories or workshops and on which interest has to be paid, on taxation, on the extent of the markets, on the

¹ See Annex 12, Tables III to VII.

² See Annex 12, Table II.

conditions of production, and on the degree of productivity. The often substantial discrepancies between the prices of raw material and between the wages included in manufacturing costs are generally lessened by circumstances connected with the size of the orders received and the organisation of production. When an industry with huge markets at its command attains a high degree of perfection in labour organisation, it can, even while paying very high wages, obtain, by reducing or carefully distributing overhead charges, a lower cost of production than an industry that pays smaller wages but has a less-well-organised output. This is why the differences between the production costs of manufactured articles in the different countries are not always very marked.

The Committee found it impossible to obtain information regarding the cost prices of different war materials, warships, guns, machine-guns, etc., of the different countries.

It was of opinion, however, that it is very difficult to compare these cost prices with each other. To be comparable, cost prices must consist of exactly the same elements. For example, the price of a ship varies according to type, displacement, calibre and number of guns, number of ships of the same type under construction, the degree of comfort enjoyed by the officers and crew, and the particular requirements of certain countries—*e.g.*, long-distance cruises. To determine the difference between the cost price of a warship in different countries, therefore, these considerations would have to be taken into account, quite apart from the differences in cost of labour and raw materials and in overhead charges.

In view of these considerations, the Committee is of opinion that, although for reasons similar to those set forth above very appreciable differences may sometimes exist between cost prices of materials in different countries, the discrepancies between these prices cannot be so high as the differences between the cost of payment of personnel. In certain cases, the quality being the same and the conditions of production being similar, discrepancies between the cost prices of materials cannot be very appreciable, and the relationship between them at any given moment cannot vary widely from year to year.

Furthermore, countries with a very powerful industrial organisation enabling them to manufacture war material very speedily are not, like other countries less highly developed industrially, forced to lay down stocks, the manufacture, upkeep, and renewal of which are very expensive. The cost of maintaining and manufacturing material in non-industrial countries, or in those of them whose industrial output is relatively small, may be very high without its being possible to infer that their fighting strength is greater than that of other countries.

6. Difficulty of finding Comparable Factors. It is always a difficult matter, moreover, when an attempt is made to compare the armament expenditure of the various countries, to juxtapose really comparable factors. There would, for instance, be no point in comparing the total expenditure of a country which has colonies or dominions with that of a country which has only home forces.

7. Differences between the Contents of the Model Statements of the Various States. Lastly, the final objection to the possibility of drawing a comparison from the statements of expenditure is that those statements will not give exactly the same information in the case of all countries.

The probability is that not all countries will be able, without making derogations, to follow the instructions to be given by the Conference regarding the transfer of expenditure figures to the Model Statements. There will therefore be some differences in the actual contents of the total figures. Similarly, not all States will be able to group the expenditure under the different headings without making rather serious derogations to the rules which will be laid down by the Conference. There will thus be certain differences between

the respective contents of those heads and sub-heads. This lack of uniformity in the actual contents of the figures of the statements will usually make any exact comparison impossible.

Taking the countries or regional groups¹ as a whole, the Committee believes that no comparison of armaments expenditure can give an exact idea of the relative extent of the armaments themselves. Armament expenditure is not a criterion for comparing armaments.

**8. Comparison
of the Expenditure
of the Same
Country
from One Year
to Another.**

The above statement is one of the essential bases of the studies made and the conclusions arrived at by the Committee, but the latter considers that a comparison of the Model Statements of each country from year to year may give information of great value regarding changes in its armaments, especially if such examination is accompanied by questions put to the State concerned regarding the nature of the figures entered in each sub-head of the Model Statement.

The Committee wishes to point out, however, that only an analysis of the expenditure can enable an opinion to be formed on the relations between a change in expenditure and the armaments acquired.

If the military expenditure of a country has decreased, this does not mean that the armaments themselves have been reduced; in the same way, if expenditure increases, it cannot be inferred that armaments themselves have grown.

For instance, if a State constructs fortifications or a naval base, the expenditure thereupon is replaced by much smaller maintenance expenditure on the termination of the construction. It may happen, however that the budget is in fact decreased by a smaller amount than this difference between capital and maintenance expenditure, because the State may place artillery in such fortifications or bases or may incur some totally different expenditure. Consequently, the armaments will have been increased although the expenditure has decreased.

If there are large stocks, it will be possible, by withdrawing material from them, to decrease current expenditure on material for a certain period. When the stocks are exhausted, it may happen that they are only partially replaced. Such replacement, however, calls for expenditure and, although the budget has increased, the stocks available will actually be smaller than those existing at the beginning of the period in question. Consequently, armaments will have decreased although expenditure has increased.

Subject to these considerations, if, during a certain period, the military organisation of a country has not been changed and if there has been no considerable variation in the pay of personnel or in the cost price of material, an analysis of the amounts spent in successive years will give a good idea of the variations in armaments themselves.

If pay and costs of production have changed, the necessary corrections can be made in the expenditure figures with a degree of accuracy which increases inversely with the variations in cost, so that the corrected figures can still give an approximate idea of the

¹ NOTE. — Major-General BARBERIS, though, like his colleagues, of opinion that a comparison between the military expenditure of every country is of no interest and is indeed impossible, observes that it would be feasible and indeed interesting to make such a comparison between two countries whose respective currencies have kept the same relative purchasing power in the year under consideration, whose military organisation is approximately the same, and which provide for their soldiers approximately the same standard of living.

Such a comparison, though it would involve a fairly large margin of error, would still be of interest in certain respects, even if there were no similarity in regard to any of the three points mentioned above, provided it were possible to determine with reasonable accuracy the difference in military expenditure due to each of the three causes.

variations in armaments. Allowance should, of course, be made for the consequences of fluctuations in purchasing power.¹

It is always possible to give a sensible interpretation of the facts. It may, for instance, happen that in one country the cost of personnel varies very considerably just because of the economic and financial situation. During a financial crisis, a country may find itself compelled to impose restrictions on its officers, N.C.O.s and men which, by cheapening the cost of that personnel, result in bringing their living conditions below the requirements of sound physical and moral welfare. When the financial crisis that calls for these sacrifices passes, there is a natural tendency to bring army personnel back to a proper standard of life, and it is possible to judge whether the resultant increase of expenditure represents nothing more than a simple adjustment of remuneration to living requirements and not an increase in armaments. The position would be the same in certain countries which have not yet reached the point of being able to give their personnel normal conditions of life if they made a gradual financial effort to remedy these defects without increasing their armed power.

In the same way, costs of material in the same country may vary from one year to another under the influence of certain circumstances. Prices of war material manufactured, for instance, in a State establishment are not the same as prices of materials manufactured by private undertakings. For instance, the two British torpedo boats *Crusader* and *Comet*, built at the Portsmouth Dockyards, cost about £226 per ton, while the torpedo boats *Cygnets* and *Crescent*, built by Vickers, cost about £200 per ton. The cost of producing war material also depends on the amount of work in the dockyards, undertakings or establishments in which the materials are manufactured or constructed. For instance, when the shipbuilding industry is in full activity, the cost per ton tends to increase; in times of crisis, on the other hand, the manufacturers accept lower prices in order to obtain orders. Account must also be taken of the fact that the cost of new constructions is not constant. Such costs tend to follow a cyclic movement, and account must be taken of fluctuations in the costs of materials.

For it to be possible, subject to the above considerations, to follow the variations in each State's armaments by interpreting successive statements of expenditure, it is necessary that the derogations which this State might find itself obliged, owing to the peculiar form of its accounts, to make in the rules to be laid down for transferring expenditure figures to the statements should be fixed by the Conference. Each State will have to undertake to observe, during the whole period of the Convention,² the rules which will thus have been laid down by the Conference for the drawing up of its Model Statement.

If this is done, the statement of expenditure will mean the same thing for each country during the validity of the Convention. The production of successive Model Statements will enable the growth of each State's expenditure to be followed and a detailed study of these documents will give very useful information regarding variations in its armaments.

¹ See Chapter XII.

² As regards derogations which might be made by the States during the execution of the Convention in respect of methods of classifying their expenditure, see Chapter XVIII (B. Derogations), particularly page 176 and the note on that page.

Chapter XXII.

SUMMARY AND CONCLUSIONS.

I. INTRODUCTION: THE CIRCUMSTANCES IN WHICH THE COMMITTEE HAS EXAMINED THE BUDGETARY DATA SUPPLIED BY THE STATES REPRESENTED AT THE CONFERENCE.

1. The Committee was instructed by the Expenditure Commission to examine, in the light of the material submitted by the various States, the technical problems raised by the application of the provisions of the draft Convention relating to the limitation and publicity of national defence expenditure (Articles 10, 24, 29, 33 and 38).

2. Out of the sixty States represented at the Disarmament Conference, twenty-nine have supplied the Technical Committee with all the documents requested, and the Committee has completed its examination of the material relating to nineteen States.¹ Furthermore, it has partially examined the budgetary documents of ten other States.² Thirty-one States have submitted incomplete documents or have sent none at all.

3. In its resolution of July 23rd, 1932, the General Commission invited the Committee to continue its work and to submit a report as soon as possible. Although such a wide enquiry, which met with difficulties due in particular to the diversity of languages, necessitated more than a year's work, the Committee has naturally been unable to collect complete information regarding the practical working of the financial and administrative institutions of the various countries.

As the Committee has, however, succeeded in obtaining the essential material for the practical task allotted to it, it has drawn up a report on the basis of the documents which it has examined. Its conclusions are therefore based upon the complete examination of the documents of nineteen States and the incomplete examination of those of ten States.

4. Although, from the point of view of the universality of its investigations, it is regrettable that the Committee has not as yet been able to examine the documentation of all the countries represented at the Conference, and although as a result it is necessary to make appropriate reservations with regard to the application of the system of publicity and limitation to such countries, it should be pointed out that the nineteen countries whose documents have been fully examined by the Committee include almost all the great military Powers and that, if account is taken of the ten countries the examination of whose material the Committee has commenced but not as yet completed, it may be said that the latter has been able to form an opinion of the position in twenty-nine countries whose expenditure, taken together, represents approximately 90 per cent of the total military expenditure of the whole world.

II. WHAT IS TO BE UNDERSTOOD BY NATIONAL DEFENCE EXPENDITURE ?

5. In order to define the contractual obligations of the States, it is necessary to specify what is to be understood by national defence expenditure for the purposes of the Convention. The Committee, which set itself a practical and attainable object, endeavoured to determine those classes of expenditure which, in its view, are incontestably

¹ Belgium, United Kingdom, Czechoslovakia, Denmark, France, Germany, India, Irish Free State, Italy, Japan, Netherlands, Norway, Poland, Roumania, Sweden, Switzerland, United States of America, U.S.S.R., Yugoslavia.

² Albania, Australia, Austria, Bulgaria, Canada, Finland, New Zealand, Portugal, South Africa, Spain.

of a specifically military character. It is this category of expenditure alone which the Committee proposes should be taken by the Conference as the juridical basis of the Convention, to the exclusion of all expenditure which, though primarily of a general character, may nevertheless contribute to increase the war potential of States.

Such a distinction is necessarily not without its arbitrary side, but it has the advantage of defining with adequate precision the common obligations proposed for acceptance by the contracting parties.¹

6. The Committee has therefore taken national defence expenditure to mean:

“ All expenditure necessitated or entailed by the creation, maintenance and training in time of peace of armed forces and formations organised on a military basis and by measures immediately connected with preparations for national mobilisation.”

As no such definition can in itself afford the necessary degree of legal precision, the Committee, with a view to defining the sphere of application of the Convention as exactly as possible, has deemed it necessary to supplement that given above by means of a list ² of items of expenditure answering to the general definition which has been given above and to be regarded therefore as national defence expenditure for the purposes of the Convention. Its perusal sufficiently shows that there can be no doubt as to the specifically military character of the expenditure which it enumerates. This list will have to be supplemented later by very definite instructions as to its application.

7. The list of expenditure on national defence includes subsidies granted by the State to private undertakings the activities of which include the manufacture of war material in time of peace, and also those granted to firms with a view to the adaptation of their plant and equipment in time of peace to permit of their immediately manufacturing or constructing material of use to the armed forces as from the first days of mobilisation.

8. It also comprises the full expenditure of such formations or associations as may be deemed by the Conference to be “ formations organised on a military basis ”. The expenditure which other associations might incur for national defence purposes appeared to the Committee to be so small that it has decided to ignore it. Nevertheless, whenever a State grants subsidies to sports associations or shooting clubs with a view to military education or training, such subsidies are national defence expenditure. If, moreover, associations or individuals give or bequeath sums of money or material to the defence services, expenditure defrayed out of such sums, or the value of such materials, are national defence expenditure.

9. Ordinary pensions, as opposed to war pensions, must be treated as national defence expenditure for publicity purposes, but should not be subjected to any scheme of limitation.

10. The conventional list of national defence expenditure compiled by the Committee corresponds very closely to the usual conception of military expenditure which is borne by national budgets in time of peace.

III. NEED FOR THE UNIFORM PRESENTATION OF THE FIGURES OF NATIONAL DEFENCE EXPENDITURE.

11. The Committee is of opinion that it would be very difficult for States to demonstrate their compliance with undertakings in respect of publicity or limitation

¹ M. WORBS wishes to point out that, by the method adopted for practical purposes, certain expenditure of considerable importance cannot be ascertained with adequate precision because it is impossible to separate it from the “ war potential ” and because, therefore, there is no alternative but to leave it to the States themselves to decide whether they wish to consider such expenditure as expenditure which should be included in the Model Statement.

² For this list, see page 16.

based on a definition and a conventional list of national defence expenditure by means of the accounts in which they enter this expenditure. The structure of these accounts differs, indeed, widely from State to State, and, furthermore, the line of demarcation between national defence expenditure within the meaning of the Convention and expenditure which, although having military value, is not to be regarded as national defence expenditure, does not appear in these accounts. If, indeed, it were desired to draw up a complete account of the national defence expenditure within the meaning of the Convention on the basis of these documents, it would be necessary to proceed to a variety of researches, interpretations and calculations which would necessitate familiarity with the administrative practice and institutions of each country. The Committee considers that this would be an extremely difficult if not a practically impossible task for any supervisory or checking body.

12. Hence the Technical Committee, like the Committee of Experts on Budgetary Questions, found it essential to establish a uniform framework (*Model Statement*)¹ in which States could enter all national defence expenditure, within the meaning of the Convention, irrespective of the nature and origin of the resources out of which that expenditure is met. The key to this operation will be supplied by the *reconciliation tables*, showing how each figure of the accounts has been transferred to the Model Statement. Such an instrument will enable all States to certify their national defence expenditure in an identical form.

IV. PAYMENTS MADE IN THE COURSE OF THE FINANCIAL YEAR MUST BE TAKEN AS THE JURIDICAL BASIS FOR EITHER THE PUBLICITY OR LIMITATION OF EXPENDITURE.

13. The result of the limitation of expenditure should be to limit the acquisition of armaments.

Any definition of expenditure must satisfy the two following conditions:

(a) Expenditure must be as nearly as possible contemporaneous with the rendering of the services and the delivery of the material;

(b) The expenditure must be entered in an identifiable and authentic form in the accounts of all States.

Credits voted are nothing more than an estimate and, as they are granted prior to the acquisition of armaments, they cannot be taken as the legal basis of the Convention.

The Committee proposes that the legal basis of limitation should be the actual *payments*, because (1) they are usually contemporaneous with or follow shortly after the acquisition of armaments and (2) they are shown in the accounts of all States.

14. If, in the course of a year, a State acquired armaments which were not paid for until the following year or years, and if that State nevertheless reached in the course of the same year the limitation figure assigned to it, it could during that year obtain armaments the value of which was in excess of that figure. In order to preclude such a possibility, the Committee has proposed a contractual clause in accordance with which the total payments in one year and the value of armaments acquired and not paid for during that year may not exceed the limitation figure fixed.

15. Deferred payments must sooner or later be made and included in the accounts and Model Statements; they will thus be subject to publicity and limitation unless the Convention has a fixed date of termination.

In this connection, the Committee points out that Article 57 of the draft Convention provides for the renewal of the initial Convention by tacit consent, and it has therefore not contemplated the possibility of a convention of relatively short duration.²

16. Limitation of expenditure can result only in the limitation of those armaments which have led to a cash disbursement. The Committee therefore considers that, for

¹ See the model of this statement, Appendix I to Part VI of the Report.

² See reservation on page 153.

purposes of budgetary limitation, it would not be practicable to estimate, for example, the value of services rendered without payment by conscripts or by reservists whose remuneration is insignificant. On the other hand, the defence forces may have the benefit, without paying for them, of certain services or payments in kind supplied by communities or private individuals. The payments made by those who supply these goods or services must in principle be subject to limitation and publicity.

17. In some cases, however, the defence forces benefit by the activities of certain services of a general character—such as those responsible for the upkeep of public roads, the police and the organisations for auditing public funds—without paying for them. The Committee considers that in such cases there is no need to subject to publicity and limitation the proportion of the expenditure on those general services which might be of military utility. As the sums involved are very small, the Committee considers that there can be no objection to the States' treating such items differently, provided always that the Conference is informed of their methods and that any change made during the term of the Convention is communicated without delay.

18. Limitation of expenditure cannot affect withdrawals from stocks of consumable stores during the period of the Convention for the requirements of the defence forces.

V-VI. BUDGETS AND ACCOUNTS.

19. The greater part of the payments to which the publicity and limitation of expenditure should apply are found in the accounts relating to the application of the budgets. The true object of payments can only be ascertained by going back to the credits in respect of which the payments were made and by studying the rules governing the application of budgets and supervision over that application. At the Expenditure Commission's request, the Committee has investigated the budgetary systems of the various countries whose documentary material was submitted to it with a view to determining in particular:

(a) To what extent publicity of credits and acts relating to the application of budgets enable the true nature of national defence expenditure to be ascertained;

(b) To what extent the control of the internal audit services over the public finances ensures the authenticity of the payment figures entered in the published accounts.

20. As regards the publicity of credits, the Committee concluded that the value of the guarantee which it affords varies according to tradition, custom and parliamentary practice and according to the real efficacy of the supervision which Parliament, through the continuous nature of its action, exercises over the granting of credits. In this connection, *de facto* situations exist, in some cases of a temporary nature, consideration of which is outside the scope of a technical body and which will have to be taken into account when the Convention is signed.

21. The application of a limitation Convention, however, based on payments made in the course of the financial "exercice" rests essentially on the accuracy of the payment figures. This accuracy primarily depends on the rules governing the organisation of public accounting and the action of the independent supervisory bodies responsible for seeing that the budgets are properly executed.

22. The Committee found that almost all national defence expenditure within the meaning of the Convention appears in the accounts of the States. These accounts show payments made under credits granted by the public authorities. The authenticity of the payment figures entered in the accounts is ensured through the application of the public accountancy regulations—that is to say, the rules governing the preparation and execution of the budget, the supervision over that execution and the establishment of the final accounts. Among these regulations the Committee attached special importance to the activities of the bodies responsible for the higher audit of the accounts and to the independence of their members as regards the Executive. The

Committee found that the degree of independence of these bodies was not the same for every State. Without expressing an opinion, however, on the question whether a particular system of accounting is more efficient than another, the Committee has ascertained that there are, in all the countries whose systems it has examined, laws and regulations relating to public finance and accountancy the observance of which guarantees the authenticity of the figures in the closed accounts.¹

23. The Committee noted that, out of the nineteen States which it has examined, sixteen only have published their audited accounts regularly. These sixteen countries have supplied the Committee with audited and published accounts relating to the year for which their statements of expenditure were compiled. The other three, however, have not published audited accounts for several years, although they have laws providing for their regular presentation. They have nevertheless supplied the Committee with manuscript statements of expenditure for the year to which the Model Statements refer and certified correct in two cases (France and Roumania) by the Government and in the third case (Belgium) by the Court of Audit.

24. The correct execution of the stipulations of the Convention naturally requires that the laws and regulations which have been ascertained by the Committee to exist should be regularly applied in practice.

25. The closed accounts are an essential instrument in any system for publicity or limitation of expenditure. For this reason, the Committee considers that the publication of the closed accounts at a sufficiently early date for the purposes of the Convention constitutes an indispensable condition for the conclusion of the said Convention.²

26. In view of these considerations, the Committee is of opinion that the various States signatories of the Convention should assume a contractual obligation to publish their accounts at a sufficiently early date and in a form suitable for meeting the requirements of the Convention. It is not within the Committee's powers to indicate the internal measures which certain States will have to take to fulfil the preliminary conditions necessary for the conclusion of the Convention, but, in view of the time which may be required to regularise the time-limits for the production of accounts or their mode of submission, it feels entitled to propose that the attention of the Governments concerned should be drawn to the necessity for immediately taking all the necessary steps to this end.

¹ **NOTE.** — 1. As, in one of the countries whose documentation was examined, there is no higher auditing body independent of the Executive, M. ANDO, attaching particular importance to the independence of the higher auditing bodies in each country, accepts the conclusions formulated on condition that, in the future, the independence of the higher auditing bodies is effectively provided for.

2. M. HÄGGLÖF (replacing M. SANDLER) is of opinion that reliance must be placed in the closed accounts audited by the competent auditing authorities and published officially by the different States. He does not think that the accuracy of these figures, which are drawn up and submitted officially, should be called in question.

The Committee has, however, stipulated as an essential condition that all States must be in a position to submit regular closed accounts audited by the competent auditing authorities within a sufficiently short period.

This principle having been laid down, the Swedish expert considers that it is unnecessary—either for the Conference or for the Permanent Commission—to undertake studies, which would inevitably be very difficult, with regard to the advantages or disadvantages of the financial or administrative systems which may exist in the different States of the world.

² **NOTE.** — See the Note by Major-General BARBERIS and M. WORBS, on page 47, on the inadequacy of this affirmation of the majority and on the vital importance of this defect in the system based on the payments effected. The present absence of closed accounts in certain countries and the necessity for improving the closed accounts of certain other countries which are regularly published render the signature of a Convention on the limitation of expenditure impossible at the present time.

VII. TO WHAT EXTENT IS IT POSSIBLE FOR EACH STATE TO DRAW UP COMPLETE ACCOUNTS OF ITS NATIONAL DEFENCE EXPENDITURE ?

27. Article 29 of the draft Convention contemplates the limitation of total national defence expenditure. The Committee has enquired into the question of whether it is possible for each State to ascertain the total amount of the expenditure subject to limitation.

28. The Committee found that the major part of national defence expenditure within the meaning of the Convention appears in the State accounts (budgetary accounts of the national defence departments, of the colonial department, of the civil departments, and special accounts), and that, in addition, a very large proportion of such expenditure is included in the accounts of the defence departments, where it is indicated under separate items.

Such national defence expenditure as appears in the budgetary accounts of the civil departments or services, and in special accounts, represents no more than a small proportion of the total. In certain cases, such expenditure is not clearly specified under special headings and is sometimes merged with expenditure having no bearing upon national defence.

29. National defence expenditure not included in the above-mentioned State accounts is of little importance, and a small proportion of such expenditure is borne by regional and local authorities and, notably in certain States with a federal form of government, by the constituent States.

The accounts of such regional or local authorities have not been supplied to the Committee, and certain States have confined themselves to submitting estimates of the expenditure shown in the accounts of these authorities. As regards the colonies, their defence expenditure is borne sometimes by the budgets of the home countries and sometimes by the general budgets of the colonies. In the various cases examined, the Committee found that the details of defence expenditure of the colonies can be easily ascertained.

30. Expenditure in the form of subsidies granted for a military purpose to sports or shooting clubs—representing in any case a comparatively small amount—are as a rule separately entered in the accounts. On the other hand, expenditure out of donations or bequests from private associations or individuals is almost invariably entered in the State accounts.

31. The Committee has indicated certain principles which the States should follow in calculating their total national defence expenditure, more especially as regards methods of reconstituting the gross amount of expenditure in countries where the services are authorised to use certain receipts in addition to budgetary credits. The other technical aspects of the problems raised by the reconstitution of the total of expenditure have been examined. It is no doubt possible that, in certain cases, States may be in doubt as to the interpretation of the rules laid down, but the sums affected could never be very considerable. It should, moreover, be noted that such possibilities of error will have less effect if in doubtful cases the various Governments always interpret in the same way the rules which the Committee has proposed.

32. Having found that a very large proportion of the expenditure on national defence appears in the accounts of the national defence departments and can therefore be easily identified, and while admitting that there may be some difficulties of interpretation with regard to the nature of certain items of expenditure appearing in other accounts, the Committee, at the conclusion of its enquiry, considers it possible for all States to produce for practical purposes a complete statement of their national defence expenditure within the meaning of the Convention.

VIII. WITH WHAT DEGREE OF ACCURACY CAN THE TOTAL NATIONAL DEFENCE EXPENDITURE RETURNED BY EACH STATE BE VERIFIED ?

33. The bulk of the figures making up the total amount of national defence expenditure are included in the published accounts, where they are shown under separate items;

it is therefore possible to verify exactly whether the majority of these figures have been correctly incorporated in the total national defence expenditure of each State.

Only a relatively small proportion of the national defence expenditure entered in the published accounts is not shown under separate heads in those accounts. In the accounts of the colonial ministries and those of the civil ministries or regional and local bodies, certain national defence expenditure is clearly specified, but it also happens that national defence expenditure is merged with civil expenditure. To enter the proportion of this expenditure which refers to national defence in the total national defence expenditure, States have to resort to allocations based on internal documents or on estimates. The method of making such allocations cannot be controlled by means of published accounts.

34. This difficulty might be to a great extent reduced if States agreed to specify under separate headings all expenditure of a military nature included in accounts other than those of the national defence ministries, and also all expenditure (in particular, civil aviation expenditure) which, though included in the accounts of the national defence ministries of certain countries, does not constitute national defence expenditure within the meaning of the Convention.

35. The verification of the inclusion in the total national defence expenditure of subsidies granted to private armament firms is closely connected with the problems referred to the Committee for the Regulation of the Trade in and Private and State Manufacture of Arms and Implements of War.

36. There will be some difficulty, from the point of view of supervision, in verifying the observance by the various States of the rules proposed by the Committee in order to remove the difficulties inherent in certain peculiarities of public accountancy, and, more especially, in the reconstitution of expenditure in the case of countries with net accounts.

37. After taking into account the aforementioned obstacles, which vary considerably in different States, the Committee is opinion 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.¹

IX. POSSIBILITY OF ASCERTAINING SEPARATELY THE TOTAL EXPENDITURE FOR EACH OF THE THREE FORCES (ARMY, NAVY AND AIR).

38. A note appended to Article 29 of the draft Convention contemplates the possibility of ascertaining and limiting the total expenditure of the Army, Navy and Air Forces separately.

In the light of the documentary material supplied, the Committee has tried to ascertain with what degree of accuracy expenditure could be thus separated. All the States whose budgetary documentation has been examined have tried to give separate figures for the expenditure on the three forces. Certain countries, however—such as the Irish Free State, Japan and the United States of America—have only shown a part of their air expenditure separately. In the case of these countries, therefore, it has been impossible to make a complete separation of the expenditure on the three forces.

39. Certain countries have separate departments for each force, so that expenditure (with the exception of certain joint expenditure) is entered separately in the respective accounts of those departments. In such cases, the only difficulty in separating expenditure lies in the splitting among these forces of the portion of national defence expenditure which is entered in the accounts of civil departments or of regional and local public bodies; but the difficulty of splitting such expenditure among the expenditure of the various forces is not such as to make it impossible to ascertain exactly the respective expenditure on each force.

¹ See reservation on page 83.

40. In other countries, however, the difficulties of separating the expenditure on each force are much greater. Separate accounts are not kept for Air Force expenditure. The Air Force is considered organically as forming an integral part of the Army and Navy, and there are services which are shared by both the Air Force and the other forces. The respective costs of these common services for the Army and Navy on the one hand and the Air Force on the other are not booked separately. The figures taken from the accounts and transferred to the total expenditure for each force must be split up on the basis either of administrative documents or of estimates. Under these circumstances, if each State is thus in a position to draw up an account for each force, the verification of this account will offer serious difficulties.

41. (a) If the Conference decides that it must be possible to check the separation of the expenditure on the three forces on the basis of figures taken to a great extent *en bloc* from the audited accounts, not all countries can effect this separation owing to the form in which their accounts are made out at the present time.

(b) Such separation is, however, not in itself impossible, provided that countries which do not at present submit separate accounts for the expenditure on each force agree to prepare such accounts, as is done at present in the United Kingdom, France, Italy, and Sweden for the three forces, in Germany for the Army and Navy, and in Switzerland for the Army and Air Force.

(c) It is only in case the Conference considers that, for the separation of expenditure on the three forces, it must accept a degree of "controllability" considerably lower than that attainable for checking the grand total of each State's expenditure that, in view of the application of Article 29 of the draft Convention, a separation of expenditure on the three forces could be considered possible.¹

X. POSSIBILITY OF SEPARATING EXPENDITURE IN RESPECT OF LAND AND NAVAL WAR MATERIAL. (ARTICLES 10 AND 24 OF THE DRAFT CONVENTION.)

42. The accurate separation of the expenditure on land and naval war material requires three conditions:

(a) The term "war material" must be precisely defined, and it must be exactly determined what is meant by expenditure on war material;

(b) It must be possible to separate the expenditure on air war material from the expenditure on land and naval material respectively;

(c) It must be possible to distinguish the annual expenditure on war material very clearly from all other expenditure that does not concern the upkeep, manufacture, or construction of such material.

(a) The Budgetary Experts' report gave a specific list of the material which should be regarded as war material, and it also clearly indicated what expenditure should be entered in the Model Statement under the head relating to expenditure on war material. Governments endeavoured to fill up the war material heads of the Model Statement in accordance with these instructions.

(b) The absence of separate accounts for the Air Forces usually makes it impossible to separate completely the expenditure on air war material. The extent to which this expenditure is shown separately in the accounts will be seen from the table on page 91. As a rule, however, it is easier to separate the expenditure on land and air war material than to separate the expenditure on naval and air material.

¹ See reservation on page 93.

(c) The structure of accounts as reflecting the various forms of military organisation is at present so different from the idea which led to the insertion of those heads in the Model Statement which deal with war material that it is impossible, without relying very largely on estimates, to ascertain on the basis of such accounts the amount of expenditure under these heads as defined by the Budgetary Experts. If war material were all bought either from private undertakings or autonomous establishments and if it were stocked and maintained in establishments where there was no other material, there would be no serious difficulty in entering under the war material head the expenditure which should appear there. This is not the case, however, and difficulties arise in consequence both of the system of military organisation and the system of accounting adopted. In some countries, war material is manufactured or repaired in non-autonomous establishments. Sometimes war material is stored and even repaired in warehouses which contain stores of material other than war material. In countries which have non-autonomous establishments, expenditure on personnel and the overhead costs of the establishments where war material is manufactured, repaired or stocked are not shown separately in the accounts, but are divided up among various heads of these accounts. In order to fill up the war material head, an exact distinction must be made between the expenditure on war material and other expenditure and then, for purposes of re-grouping, a search must be made in all the relevant budgetary items for the expenditure corresponding to the definition given of expenditure on war material. The latter difficulty might, to a great extent, be solved in countries which have non-autonomous manufacturing establishments if the accounts were submitted in a form corresponding to the war material head of the Model Statement. This would be nothing more than a change in accounting procedure. But the difficulty inherent in the existence of joint establishments or depots in which all kinds of material are stocked, repaired or manufactured raises problems of military organisation and cannot be solved by a simple accountancy reform.

43. The Committee examined the extent to which in each country the head relating to war material represented figures taken *en bloc* from the authenticated and audited accounts. The results of this investigation are shown in the tables reproduced in Chapters X.

A perusal of the tables shows that the proportion which these figures bear to the totals under the heads relating to war material varies very widely from country to country and that, in general, these heads cannot be filled up without recourse in a great many cases to allocations based upon the internal accounts or on estimates.

In an endeavour to remedy these difficulties, the Committee set itself to evolve a simpler conception of Head IV (Expenditure on War Material) which would have enabled the States to ascertain with greater accuracy the total expenditure to be entered under this head; it did not, however, succeed in discovering a satisfactory solution.

44. (a) Should the Conference decide that the separation of expenditure on land and naval material must be capable of verification on the basis of figures taken largely *en bloc* from the audited accounts, no such separation is feasible with the accounts drawn up as they are at present.

(b) Such separation, however, is not inherently impossible provided that the States are prepared to draw up separate budgets and accounts for the different forces and provided that those which possess autonomous establishments in which material is manufactured, constructed or repaired submit their budgets and accounts in the same form as the war material heads of the Model Statement.

(c) The separation of expenditure on land and naval material with a view to the application of Articles 10 and 24 of the draft Convention could only be regarded as practicable if the Conference were to take the view that, in the matter of the separation of expenditure on land and naval material respectively, it should accept figures which might not be capable of verification to anything like the same degree as is attainable in regard to the grand total of the expenditure of each State.¹

¹ See reservation on page 99.

XI. CLASSIFICATION OF EXPENDITURE FOR PUBLICITY PURPOSES.

A. *Article 38 of the Draft Convention.*

45. Article 38 of the draft Convention provides for publicity of national defence expenditure by means of a Model Statement comprising a certain number of detailed sub-heads.

In the light of the documents submitted, the Committee has examined the possibility of filling in the various sub-heads of the Model Statement and also of verifying the accuracy of the figures given.

The Committee has already stated its opinion of the extent to which States can draw up a complete account of their national defence expenditure and also of the extent to which a supervisory body could verify the accuracy of the figure given (Chapters VII and VIII).

The Committee has further considered how far the States have been able to supply figures for the expenditure on each of the three forces. It has noted (Chapter IX) that, on account of the manner in which their accounts are at present drawn up, it is impossible for the States to make such a separation on the basis of figures entirely capable of verification.

If this is true of the figures of the total expenditure in respect of the various forces, it follows that the difficulties of filling in a detailed Model Statement are still greater. If the figures of the total expenditure on each force can only be verified with difficulty, there will obviously be still greater difficulties in verifying the subdivisions of the main totals.

46. The Committee nevertheless considers that there would be an undoubted advantage in having all national defence expenditure shown, with the necessary explanations, in a uniform Model Statement in which the various items would be given in some detail, even though the figures under each of them might not always be entirely accurate and even though an international supervisory body might encounter very considerable difficulties in checking the detailed figures. Article 8 of the Covenant of the League of Nations provides for an exchange of information regarding national defence and, in pursuance of this article, States have communicated, amongst other particulars, information regarding their national defence expenditure. The Committee is of opinion that it would be preferable that such information might be supplied by means of a universally adopted Model Statement, with a total figure capable of verification to the extent indicated under section VIII.

Should the Conference adopt a system of limitation, publicity by means of a Model Statement would facilitate supervision.¹

B. *Article 33. Publicity by Categories of Expenditure in respect of Land and Naval Material.*

47. More detailed publicity of expenditure on war material was contemplated under Article 33 of the draft Convention, which provided for publicity of the sums annually expended on certain categories of land and naval war material. The Committee of Budgetary Experts showed that such separate publicity by categories of war material was impossible for the generality of States.

48. The Technical Committee has already expressed the opinion that, with the budgetary accounts of the majority of countries in their present state, publicity of the exact amount actually expended in the course of each budgetary year on the maintenance,

¹ M. WORBS (Germany) fails to see how it can be stated that publicity through the medium of a Model Statement would facilitate supervision of limitation when it is patent that, for publicity purposes, the rules governing the accuracy of the figures in the Model Statement will be less strict. Any such statement would give rise to confusion between the conceptions of "publicity" and "limitation".

repair, purchase and manufacture of the various categories of war material is impossible. The most detailed publicity at present attainable as regards expenditure on war material is that provided by filling in the various items of the heads of the Model Statement relating to war material.

48 bis. The Committee wishes to make it clear that the fact that it is impossible to publish detailed particulars of budgetary expenditure by categories of material does not imply that it is impossible to ascertain the cost price of the finished articles, either through the purchase price or through the cost accounts. The latter are not usually published. In the first instance, indeed, it is a case of ascertaining the annual budgetary expenditure on various categories of material, while, in the second, it is a case of ascertaining the cost price of such material on the completion of manufacture. This question has been raised by another committee; it is not, however, for the Technical Committee to consider how far its conclusions might influence the activities of other organs of the Conference and more especially those of the Committee for the Regulation of Trade in and the Private and State Manufacture of Arms and Implements of War.

XII. FLUCTUATIONS IN THE PURCHASING POWER OF CURRENCIES.¹

49. The limits of expenditure must be expressed in the respective national currencies of the various States.

50. If the purchasing power of these currencies varies, the limits originally fixed must be readjusted in order to retain in all circumstances the same power of obtaining armaments.

51. To be able to judge the effect of fluctuations in purchasing power on the limitation of expenditure, the Committee first of all studied the extent of the fluctuations which have occurred since 1929 in the various countries.

The first basic fact observable is the considerable fall in prices which occurred in almost all countries during the period 1929 to September 1931. This increase in purchasing power, however, varied from country to country. Nevertheless, the general tendency—*i.e.*, the general fall in prices—bore a universal character.

In autumn 1931, a large number of countries left the gold standard. This led to very serious fluctuations in the external value of their currencies, while, with few exceptions, their domestic purchasing power preserved a relative stability.

The general impression from a study of the fluctuations in purchasing power in most of the countries which have left the gold standard may be thus expressed:

- (a) Relative stability of the cost of living;
- (b) Moderate fluctuations of wholesale prices and
- (c) Considerable alterations in the external values of the currencies.

A study of the fluctuations since the autumn of 1931 in the countries which remained on the gold standard gives a rather different impression. The Committee has found that, in these countries, the fall in prices, which was universal up to the autumn of 1931, has, as a rule, continued up to the present day. Some differences were noted between the tendencies in the various countries. In countries with a "managed" currency particularly, the fluctuations were not negligible.

52. Any automatic adjustment of limits as a result of fluctuations of purchasing power was recognised to be impossible either on the basis of national price indices or on the basis of an international index of the cost of armaments.

53. After suggesting that, as a temporary measure and for a brief period, States might under certain conditions¹ accept a lump sum increase in their limits to minimise

¹ See note on page 115.

the probable consequences of fluctuations in purchasing power, the Committee recognised that only a living organisation could proceed to readjustments of the contractual limits.

54. Any request for the adjustment of its own limits submitted by a State should be justified by an appreciable decrease in purchasing power having seriously increased the cost of its armaments.

55. Should an appreciable increase in the purchasing power of a country's currency have led to a serious decline in the cost of armaments, other States would have the right to ask for a readjustment of the limits of the State concerned.

56. The task of readjusting limits should be entrusted to the Permanent Disarmament Commission itself; the latter would decide on the advice of a sub-committee consisting of experts who would not be representatives of Governments. The Permanent Commission could not pronounce against this committee's advice without hearing its explanations.

57. Any request for readjustment would be considered by a small committee, which would judge whether such a request could be entertained.

58. The nature of the evidence to be furnished when a request for readjustment is submitted is specified in paragraph 96 below.

59. The Technical Committee is of opinion that, if the purchasing power of currencies were affected by changes which were both very considerable and very rapid and if these changes were not universal and occurred at different periods and to a different degree in the various countries, the budgetary limitation method would no longer operate.

But should fluctuations in the different countries not be too violent, the Committee considers that the living organisation which it recommends would suffice to provide for a readjustment of limits such as would allow the latter to retain their full contractual value.¹

XIII. INFLUENCE OF VARIATIONS OF EXPENDITURE FROM ONE YEAR TO ANOTHER ON THE FIXING OF LIMITS.

60. The system of limitation provided for in Articles 10, 24 and 29 of the draft Convention, and described in detail in the report of the Committee of Budgetary Experts and in the present report, is based on the limitation of the *annual* expenditure of the contracting parties. The fixing of annual limits is, in the Technical Committee's opinion, essential both to the practical application of the Convention by States and for the efficacy of international supervision.

The Committee of Budgetary Experts was of opinion, however, that, if equal annual limits were fixed simply for each year while the Convention was in force, States would be compelled to ask for a high figure in order to allow for the inevitable fluctuations in the volume of their payments over a number of consecutive years. To deal with this difficulty, the Committee proposed that an annual average limit for four years should be laid down, the contracting parties being entitled to exceed this annual average limit by a percentage fixed by the Conference and kept as low as possible, provided that any such excess amounts were set off by reductions during the rest of the period and that States did not in the long run exceed, during the consecutive years of the period proposed, the limit fixed for that period.

61. After studying the proposals of the Experts and recognising the necessity for an annual limit in conformity with the general provisions of the draft Convention, the Technical Committee considers that it is not at present in a position, especially in the

¹ See the note submitted by M. WORBS, Major-General BARBERIS and M. ANDO (page 127) on the defects of the system recommended in the present report, due to the fluctuations of purchasing power.

absence of information as to the duration of the Convention and the relations which may exist between the present expenditure of the different States and the limits fixed in the Convention, to make definite recommendations either regarding the period over which the annual limit should be averaged or the permissible percentage of excess—or, indeed, the proposal to adopt such a percentage. Only when the financial consequences of the Conference's decisions can be appreciated will it be possible to express a definite technical opinion on this point.

62. In any case, the Technical Committee expresses the view that the period to be covered by the annual average limit should be sufficiently long to make it possible during this period to ascertain the manner in which the States have observed their limitation undertakings. The period in question must also be short enough to enable proof of compliance with the annual average limit to be produced within a reasonably short period.¹

63. Without wishing to deal with the problem of the fixing of contractual limits, the Committee considers that, from the technical point of view, it will be necessary, among other considerations, to take into account the expenditure relating to military activities not subject to special limitation; nor should the limits prevent the contracting States from duly carrying out any programmes for manufacture or construction of material they may have drawn up within the framework of the decisions of the Conference or within the limits laid down by other conventions remaining in force after the conclusion of the Disarmament Convention or from providing for the maintenance of material.

Lastly, the fixing of limits in the Convention or on the occasion of the revisions which will be carried out in accordance with Article 59 must enable the contracting States to provide a reasonable standard of living for their personnel and their troops.¹

XIV. TRANSFERS BETWEEN THE LIMITS OF THE THREE FORCES.

64. In the absence of any decision by the Conference regarding the separate limitation of expenditure on the three forces and their material, the Technical Committee was only able to consider from a theoretical standpoint the possibilities of transfers between the limits fixed for the expenditure on each of the forces and the expenditure on land and naval material.

65. If the Conference accepts the principle of such limitations, the possibility of transfers will have to be considered for all States both between the limits of expenditure on each of the forces and between the expenditure on material of each force and the other expenditure of that force.²

66. The possibility of such transfers would facilitate the adoption of a limitation of expenditure. The system of transfers might be as follows: A separate limit would be fixed for the total expenditure of each force, but, at the same time, percentages would be fixed for the transfers authorised between these limits. These percentages would be determined for each country by agreement between the Powers represented at the Conference and taking into account its special situation. The transfer percentages would have to be fixed at a low figure.

¹ See the note on page 131 by Major-General BARBERIS and M. WORBS on the ineffectiveness of supervision finally carried out perhaps six or seven years after the close of the financial year.

² For the reasons given in the note on pages 136 and 137, Mr. LYON is of opinion that the right of effecting transfers between the forces is illogical, unnecessary and inconsistent with the resolution on budgetary limitation adopted by the General Commission on July 23rd, 1932.

XV. SPECIAL PROCEDURE REGARDING CERTAIN UNFORESEEABLE AND EXCEPTIONAL EXPENDITURE NOT INVOLVING AN INCREASE IN THE ARMAMENTS OF THE COUNTRY INCURRING IT.¹

67. When, as a result of natural disasters such as earthquakes, cyclones, tidal waves, floods, forest fires, or epidemics, the armed forces are called upon to assist civilian populations, their intervention may entail additional expenditure. These natural disasters or accidents may also cause the loss or destruction of naval units or material, the reconstruction or reconstitution of which would involve extra expenditure. Again, the suppression of internal disorder, civil wars, revolts in distant possessions and the protection of the life and property of nationals in danger, may call for the intervention of the armed forces and result in exceptional expenditure.

68. In consequence of the reduction of armaments itself, Governments may be obliged, on account of the withdrawal of certain garrisons, to compensate municipalities which have already incurred expenditure for the accommodation of the troops. The cancellation of certain contracts for supplies or building—*e.g.*, the cancellation of a contract for building a warship—may involve the payment of large compensation.

69. The Technical Committee is not entitled to prejudge any questions that may arise in regard to the legitimacy of any particular case contemplated above, and, considering the matter solely from the technical standpoint, it expresses the opinion that the Convention would be lacking in fairness if it did not provide a procedure enabling States to have such expenditure excluded from the figures they would be called upon to produce in evidence of the fulfilment of their contractual engagements.

The Technical Committee therefore recommends the following procedure for such cases:

70. When a State is called upon during a given year to meet extraordinary expenditure in respect of the cases enumerated above, it must include this expenditure in the Model Statement produced in evidence of limitation, but it could indicate to the Permanent Commission the nature and amount of such exceptional expenditure and prove by definite evidence that this expenditure does not represent an increase in its armaments.

Having considered that evidence, the Permanent Commission would see:

(a) Whether the expenditure shown in the publicity table had really been applied to one of the exceptional cases referred to above;

(b) Whether it had enabled the country concerned to increase the strength of its armaments.

The amount of the expenditure mentioned above would be deducted from the Model Statement produced in evidence of limitation, unless the Permanent Commission, by a reasoned decision, established that one or both of these conditions had not been fulfilled. Should the Commission establish that part of this exceptional expenditure had had the effect of enabling armaments to be increased, the amount of the corresponding expenditure would be kept in the Model Statement produced in evidence of limitation.

Should certain of the events enumerated above assume such gravity as to threaten the national safety, the provisions of Article 50 of the draft Convention would be applicable.

XVI. THE MODEL STATEMENT.

71. In view of the considerations set out in paragraphs 11 and 12, the Committee proposes the adoption for publicity purposes of a detailed Model Statement for the expenditure of each category of the Land, Naval and Air Forces.

¹ See reservation on page 139.

As regards the form of this statement, the Committee proposes to maintain the model adopted by the Committee of Experts on Budgetary Questions.

72. In the case, however, of expenditure on naval material, it proposes to substitute for the former subdivisions L and M the two following subdivisions:

- L. New construction.
- M. Maintenance.

Further, it proposes that the recapitulatory table of the expenditure on the three forces should follow, and not precede, the tables for the expenditure on each force.¹

73. In the event of the principle of budgetary limitation being adopted by the Conference, the subdivisions of the Model Statement, even though none of them may be subject to special limitation, will show how the expenditure subject to limitation is distributed.

The Model Statement may help to encourage States to present their accounts in constantly increasing detail and thus achieve greater accuracy in the presentation of their expenditure for the three categories of forces and war material. The technique involved in limitation and publicity of expenditure must develop gradually. The decisions which will be taken by the Conference in this sphere should, in the Committee's opinion, be regarded as the opening stage.

74. In the Committee's view, it will not, for the time being, be possible to propose such extensive reforms as those implied by the standardisation of the budgets and accounts of the various countries, but the adoption of the Model Statement and its annexed tables might contribute to accelerating this standardisation.

75. On the basis of the information obtained, the Committee confirms the opinion of the Budgetary Experts that it would not be possible for all States to submit a Model Statement based on audited and published closed accounts within a period of less than fourteen months from the end of the financial year in each particular country.

XVII. SPECIAL INFORMATION ANNEXED TO THE MODEL STATEMENT FOR LIMITATION AND PUBLICITY PURPOSES.

76. The Committee of Budgetary Experts suggested annexing to the Model Statement a certain number of publicity tables.²

The Technical Committee examined, in the light of the documents submitted, how far the States had succeeded in filling in these tables, and considered afresh their utility.

77. The Committee came to the conclusion that it was desirable that each State should be requested to supply particulars of the total amount spent on ordinary pensions as opposed to war pensions. These particulars should immediately follow the table showing the aggregate total expenditure of the three forces so as to facilitate the addition of the expenditure on ordinary pensions to the expenditure shown in the Model Statement.

78. Furthermore, it recognised that Table A (particulars of expenditure on reservists) and Table B (special particulars with regard to the material of the naval forces) had given rise to very great difficulties of interpretation and that their value was not in fact very considerable. Such being the case, it proposes their abolition.

¹ See the specimen Model Statement, Part VI, of the Report, Appendix I.

² These tables contained particulars on the following points:

Table A — Expenditure on pay of reserves;

Table B — Expenditure on shipbuilding (new construction; maintenance and repairs);

Table C — Statement of the amount not utilised at the end of the financial year out of block credits voted in respect of expenditure for more than one year;

Table D — Statement of amounts outstanding in respect of credit purchases or deferred payments;

Table E — Statement of subsidies granted in the form of advances to, or participations acquired in, enterprises having among their objects the furnishing of goods or services for armament purposes where such expenditure has been excluded from the return on the ground that it was not regarded as armaments expenditure;

Table F — Expenditure on pensions;

Table G — Chief alterations made during the year in (a) provisions concerning the grant of pensions, (b) provisions concerning taxes on pay, (c) provisions regarding social insurance or similar privileges granted to personnel.

79. On the other hand, it attaches particular importance to information regarding the amount of the funds remaining at the disposal of each State at the end of each financial "exercice" and also to information regarding a statement of the reasons advanced by States to justify the exclusion from the Model Statement of expenditure on subsidies to private firms engaged, *inter alia*, in manufacturing war material in time of peace—when, it is claimed, that they were not granted to the firms in question for specifically military purposes.

80.¹ It also attaches special importance to being informed of the liquidation figures in respect of material delivered but not paid for during the course of each financial year. This table is of great importance from the point of view of the system proposed by the Technical Committee in order to prevent States from using credit purchases and deferred payments as a means of procuring during any one year armaments to a value in excess of the limitation figure fixed for its expenditure.

81. Lastly, the Committee deems it necessary to provide a table in which the States would supply information regarding contributions in kind and free services rendered to the armed forces and the formations organised on a military basis.

82. Strictly speaking, there would no longer be any annexed tables, the Model Statement being followed by the following particulars:

National Defence Pensions.

1. Ordinary Pensions.

Optional: Pensions granted as a result of the reduction of armaments.

Other Special Information appended to the Model Statement.

2. Difference between the initial amounts of the block credits voted for several years and any part of such credits already entered in the budgets, including the budget for the year to which the Model Statement refers.
3. Difference between carry-forward credits—that is to say, credits which may be used for payments to be made during the year or subsequent years and payments in respect of such credits shown in the accounts for the former.
4. Authorisations to enter into commitments granted apart from credits voted in the budget of the year to which the Model Statement refers.
5. Difference between the block credits dealt with in special accounts and payments already made against such accounts, including those made during the year in respect of which the Model Statement has been compiled, together with all other credits available in special accounts.
6. Credit balances of autonomous establishments remaining at the disposal of those establishments.
7. Amount liquidated and not paid for materials supplied and services rendered.
8. Expenditure not included in the Model Statement for subsidies to and participations in private undertakings having among their objects the furnishing of war material in peace-time.
9. Various information regarding unpaid services and contributions for national defence.

XVIII. RECONCILIATION TABLE — DEROGATIONS.

83. In order to fill up the Model Statement, the States are obliged to rearrange under a limited number of headings their total national defence expenditure, at present shown in a large number of accounts. It is clear that the usefulness of the Model Statement would be greatly impaired if sufficient explanations were not given. The Committee

¹ See the reservations on pages 153, 155 and 159.

therefore considers it essential for the machinery of limitation and publicity of expenditure that the States should supply explanatory tables (*reconciliation tables*)¹ showing exactly how the various items in the accounts of each State have been transferred to the Model Statement.

84. The Model Statement, annexed information, reconciliation tables and closed accounts will provide the Permanent Disarmament Commission with practical instruments for the supervision of limitation and publicity obligations.

85. *Derogations.* — The reconciliation tables should bring out and explain with all due clarity the extent to which the States have been obliged to derogate from the rules adopted by the Conference for the transfer of the figures in the accounts to the Model Statement in such a way as to make it possible accurately to ascertain the content and meaning of the total shown in the Model Statement supplied by each State and each of its tables or sub-heads. It is understood that the Conference will itself decide to what extent the States shall be entitled to have recourse to such derogations.

XIX. PUBLICITY OF CREDITS AND EVIDENCE OF LIMITATION.

86. In order to diminish the inconvenience arising from the necessary delay in producing the Model Statement based upon actual payments, the Technical Committee considers that the States might be asked to forward to the Permanent Disarmament Commission—at least during the earlier years of application of the Convention—a Model Statement based upon the budgets as voted. In cases in which the budgets are voted after the beginning of the financial year, the Committee proposes that special arrangements should be made. The early submission of the Model Statement based upon budgets voted will enable the Permanent Disarmament Commission to form some idea of the extent to which these credits are consistent with the limitation undertakings.

87. The Committee has also enquired into the possibility of asking States to notify to the Permanent Disarmament Commission, shortly after the conclusion of the budgetary year of twelve months, the total actual payments made during these twelve months irrespective of the origin of such liabilities. This account of disbursements, which could not be submitted in the form of the Model Statement and cannot be employed as evidence of compliance with the limitation obligations, would nevertheless afford valuable information regarding the total payments actually made by the various States in the course of each financial year. The submission of this annual account of disbursements would be easier in the case of countries whose accounts show the total payments made during the financial year, and more difficult in the case of those countries which enter in their accounts the payments made, not merely in the twelve months of the financial year, but during an additional period also. In regard to all countries, however, further study will be required to ascertain whether the production of such accounts is really feasible. It would also be desirable to consider whether certain States having brief additional periods could not rapidly furnish accounts of disbursements during the twelve-monthly period in respect of the financial year, with the addition of disbursements made on that account during the additional period.

Moreover, with a view to the rapid production of the closed accounts, the Committee recommends that the additional periods should be shortened.

88. The Committee also recommends that the Permanent Commission should be supplied with draft budgets, budgets as voted, certain laws and regulations to which the Commission might find it useful to refer, and also various information regarding changes in administrative and financial methods.

89. The Model Statement based upon the budgets voted, the accounts of annual disbursements, the Model Statement based upon payments actually made and constituting evidence of compliance with the limitation obligations, are all links of a single chain. They will furnish the Permanent Disarmament Commission with sufficient data to enable it to satisfy itself that the expenditure of the States remains below the fixed limits.

¹ For models, see Part VI of the Report, Appendix II.

90. In the Committee's opinion, this supplementary publicity, which could be produced in a shorter space of time, would to some extent permit in a preliminary supervision over the obligations of the contracting parties. It would go a long way towards overcoming the drawbacks of the lengthy period which must necessarily elapse before the audited payment figures taken from the closed accounts can be published. If the Permanent Commission received in succession the Model Statement of budgetary credits a few months after the beginning of the financial year, the account of annual disbursements immediately after the close of that year and, lastly, the Model Statement of payments made, it would, with the help of the other documents which are also to be communicated, be progressively enlightened as to the importance of the financial effort devoted by each country to national defence, the true object of the expenditure and therefore the fulfilment by the various States of their contractual obligations. The feeling of security of the contracting States would thus be strengthened.

XX. TECHNICAL OBSERVATIONS CONCERNING THE SUPERVISION BY THE PERMANENT DISARMAMENT COMMISSION OF THE PROVISIONS RELATING TO THE LIMITATION AND PUBLICITY OF EXPENDITURE.

91. Taking as a basis the report by the Bureau of the Conference (document Conf.D./Bureau 39¹) concerning supervision, the Technical Committee has endeavoured to define the part which should be played by the Permanent Disarmament Commission as regards the supervision of the provisions of the Convention relating to the limitation and publicity of expenditure.

92. In the first place, this supervision will involve the verification of the regularity—*i.e.*, the accuracy—of the payment figures inserted in the Statements. This verification will be effected on the basis of the closed accounts and other official documents, with the help of the reconciliation tables drawn up by each contracting party.

93. The Permanent Disarmament Commission will also be entitled to ask for "any additional particulars and explanations it may consider necessary", as laid down in paragraph 7 of document Conf.D./Bureau 39.

94. The Committee endeavoured to define the exact scope of this last-named provision as regards the limitation and publicity of expenditure.

In view of the authenticity of the figures entered in the closed accounts, the Committee considers that, as a general rule, it will not be necessary to ask for additional particulars in regard to them.

In view of the paramount importance of the accuracy of the amount of the total national defence expenditure of each State, the Committee considers it necessary to provide that the Permanent Commission will be entitled to ask the State concerned for any further particulars and explanations, should the Commission have reason to believe that certain national defence expenditure has been excluded from the Model Statement.

This would also apply to the total expenditure on the three forces and expenditure on land and naval material, should these totals be limited separately. On the other hand, in the case of items in the Model Statement which are not specially limited, the Committee desires to point out that the publicity figures seem to it less important than the figures subject to limitation, and that, on that account, the verification may be less strict in the case of the various items of the Model Statement drawn up with a view to publicity.

95. The Committee examined whether the exercise of strict supervision for the limitation of expenditure might require the presentation of documents usually regarded as secret. In this connection, the Committee wishes to observe that, for the purpose of

¹ The above mentioned documents of the Bureau have not yet been approved by the Conference. It is therefore understood that the observations made in the present chapter with reference to the views set forth in the said documents must necessarily be of a provisional character and that, if the Conference's decisions are not in accordance with the Bureau's proposals, they will have to be taken into account as regards verification of the limitation and publicity of expenditure.

checking the accuracy of the total national defence expenditure, it will, in its opinion, be sufficient to refer, by means of the reconciliation table, to the closed accounts and, if necessary, to ask for certain additional particulars which are not of a secret nature.

96. The Committee, considering separately the initiation of the procedures for readjustment of limits in the case of fluctuations in the purchasing power of currency and for the deduction of unforeseen and exceptional expenditure, wondered whether the strict verification of proofs and evidence supplied by States would not mean that they must produce certain information, such as contracts or statistics, which States themselves do not generally make public.

Although this is a general problem relating to the exercise by the Permanent Disarmament Commission of supervision over all contractual obligations arising out of the Convention, the final settlement of which rests with the Conference itself, the Technical Committee feels that it is not exceeding its powers in expressing the opinion that, in such cases, the Permanent Disarmament Commission might, for practical purposes, rest content with the explanations given by the Governments and that the latter should not be required to produce unpublished documents.¹

97. The supervision exercised by the Permanent Commission should not, in the Committee's opinion, simply be confined to the verification of the figures in the Model Statements. The Committee considers that, with the help of supplementary Model Statements based on estimates of expenditure and the various particulars which it proposes should be communicated to the Permanent Commission, the latter will be in a position to observe the trend of the financial effort devoted by States to their national defence. It considers that this will enable the supervision to be improved during the application of the Convention.

98. The task which will have to be assumed by the Permanent Commission in connection with the supervision of a Convention for the limitation and publicity of expenditure will be of great importance and will doubtless involve a considerable amount of work. The Committee accordingly considered it expedient to propose that a sub-committee of the Permanent Disarmament Commission should be specially responsible for all problems relating to the publicity and limitation of expenditure. This sub-committee should consist of persons with an expert knowledge of public accounting and general and military administration. It should possess a secretariat which should include officials with expert qualifications.

XXI. THE EXPENDITURE ON ARMAMENTS OF THE VARIOUS COUNTRIES DOES NOT PROVIDE A CRITERION FOR COMPARING THEIR ARMAMENTS.

99. The uniform presentation of expenditure in the framework of the Model Statement does away with the differences of form which exist in the accounting systems of the various States, but it cannot remove the deep divergencies resulting from the very nature of things and from the character of the various national institutions.

100. The Committee found that there was no common measure of comparison for expenditure on armaments. The conversion of the expenditure figures of the various States into a currency selected as a standard cannot furnish any precise elements of comparison. If currencies fluctuate, whereas internal prices remain comparatively stable, the conversion on the same date of the expenditure figures of the various States into a standard currency will lead to absurd results.

101. The rate of remuneration of personnel and the cost of maintenance of effectives vary very widely. These differences are due to the different methods of organisation of the armed forces and to the varying standards of living in the several countries.

¹ Colonel KISSLING (Switzerland) and Mr. LYON (United Kingdom) express the opinion that, although, as a general rule, the production of unpublished documents would not be necessary, they might need to be produced in exceptional cases.

102. The differences are less pronounced in the case of the cost of production of material. While the cost of production of certain material in the various countries sometimes differs appreciably, there are cases in which these discrepancies cannot, quality being equal and conditions of production similar, be very great. In such cases the relation between the cost prices at a given moment cannot vary considerably from one year to another.

103. Moreover, it is always difficult, when attempting to compare the expenditure of the various countries on armaments, to draw a parallel between comparable elements.

104. For these reasons, the Committee *considers that, taking countries or regional groups as a whole, a comparison of expenditure on armaments cannot furnish any precise information as to the relative size of the actual armaments.*¹

105. The Committee nevertheless considers that, if the facts are correctly interpreted, and above all if variations in the purchasing power of the 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.

* * *

106. *The Technical Committee, in strict conformity with its terms of reference, considers that the present report embodies reasoned replies to all the questions referred to it and that these replies will enable the Expenditure Commission to come to the necessary decisions on the subject of the limitation and publicity of expenditure.*

* * *

The Committee wishes to place on record its deep appreciation of the services of the members of the Secretariat associated with it in its work, and of their invaluable co-operation in the production of this report.

GENERAL RESERVATION SUBMITTED BY M. ANDO, MAJOR-GENERAL BARBERIS
AND M. WORBS.

Noting that in certain countries there are technical difficulties which stand in the way of the successful operation of the system of budgetary limitation recommended by this report;

Considering it indispensable that the said countries, in order to surmount these difficulties, should make vigorous efforts to adjust or modify their budgetary and financial systems and the method and time-limits of submission of budgets and closed accounts;

Being unable to anticipate in the present economic state of the world that fluctuations in the purchasing power of currencies in the near future will not render inoperative the system of limitation of expenditure or will not stand in the way of its successful working.

M. ANDO, Major-General BARBERIS and M. WORBS believe that, from the technical point of view, a period of from four to five years must be provided during which the system of publicity alone can be applied and after which the situation should be re-examined in order to ascertain whether at that moment it is possible to apply the system of budgetary limitation recommended in this report—*i.e.*, to frame a convention on the legal basis of the payments effected.

¹ See reservation on page 210.

RESERVATION BY LIEUT.-COLONEL G. V. STRONG (United States of America).

In the opinion of the American expert, the report of the Technical Committee constitutes a thorough, painstaking and valuable contribution to the work of the Conference. The report evidences the impracticability of measures of budgetary limitation at this time. However, it does indicate, not only the value, but also the practicability of application in so far as budgetary publicity is concerned. Budgetary publicity may give valuable indications in showing the trend of national defence expenditure on the part of the nations which are parties to such publicity.

In signing the report of the Technical Committee, the American expert limits his concurrence therein to measures of budgetary publicity and makes full reservation on all subjects which deal with budgetary limitation.

ANNEXES.

ANNEX 1.

Conf.D./C.D.5.

INFORMATION REQUESTED BY THE TECHNICAL COMMITTEE.

NOTE BY THE SECRETARY-GENERAL.

Geneva, March 19th, 1933.

The Secretary-General of the Conference for the Reduction and Limitation of Armaments has the honour to transmit herewith to the delegations a copy of the resolution adopted on March 16th last by the Commission on National Defence Expenditure (document Conf.D./C.D.4).¹ By paragraph 3 of this resolution the delegations of the States represented at the Conference are requested to facilitate the work of the Technical Committee set up by the Commission on National Defence Expenditure by placing at the disposal of the Committee any supplementary information which it may need.

The Technical Committee, which met on March 17th and 18th, expressed the hope that the delegations which had not already done so would be good enough to transmit to it at the earliest date, and if possible *before April 11th*, the following documents *in three copies* :

1. The Model Statement filled in on the basis of the last closed accounts and in conformity with the instructions contained in the report of the Committee of Experts on Budgetary Questions (document C.182.M.69.1931.IX).

2. The closed accounts for the last financial year or, if such a document is not available, the actual statements of account which have been utilised for the drawing up of the Model Statement.

3. The budget for the same year. (If the budget that has been adopted is not sufficiently detailed, and if the draft estimates contain further particulars, it would perhaps be desirable to send the latter as well.)

4. Reconciliation table showing the relations between the closed accounts or actual statements of account (mentioned in 2) and the statement.²

5. Complete explanations as regards the method followed for filling in the statements and particularly as to such derogations to the instructions drafted by the Committee of Experts on Budgetary Questions as the Government in question has been obliged to make. In particular, the Technical Committee desired to draw attention to the following paragraph in Chapter 4 of the Committee of Experts' report:

"The explanations to be given by each Government and presented to the Conference would set out how far it had been able to fill in the Model Statement by the use of published figures and how far such published figures had been found inadequate for the purpose, and also how far and in what way this inadequacy had been got over by the use of reliable, even if unpublished, figures; and, finally, how far in the end it had been obliged to depart from the instructions on account of its administrative practices."

Acting in accordance with instructions given to it under the resolution of the Commission on National Defence Expenditure, the Technical Committee has drafted a questionnaire on the budgetary systems of the various countries. In conformity with the Technical Committee's request, a copy of this questionnaire (document Conf.D./C.D.6)³ is attached to the present note with a request to forward replies to the Secretariat of the Conference at the earliest date, and if possible before April 11th.

Lastly, the Technical Committee has requested the Secretariat to forward to all the delegations for information a copy of a provisional memorandum drawn up by the Secretariat and relating to the information transmitted by the various Governments on the subject of their national defence expenditure. This memorandum (document Conf.D./C.D./C.T.1) is based on the data received up to March 1st, 1932.⁴

¹ See Minutes of the Expenditure Commission, page 11.

² See Chapter 14 of the report of the Committee of Experts on Budgetary Questions (document C.183.M.69.1931.IX).

³ See Annex 2.

⁴ Note by the Secretariat: This memorandum is not reproduced here.

ANNEX 2.

Conf.D./C.D.6.

QUESTIONNAIRE CONCERNING BUDGET SYSTEMS DRAFTED BY THE TECHNICAL COMMITTEE.

1. *Preparation of the Budget.*

What are the organs participating in the preparation of the budget ?

2. *Discussion, Voting and Putting into Execution of the Budget.*

- (a) What are the respective rights of the executive and legislative powers ?
- (b) By what act is the budget put into execution ?
- (c) What are the measures adopted if the budget is not passed in time (*douzièmes provisoires*, provisional budgets, prorogation of the validity of the budget in course of execution) ? What authority is empowered to take such measures ? For how long are such measures valid ?
- (d) What period is covered by the budget ?
- (e) Are the budgets officially published and, if so, at what date ?

3. *Structure of the Budget.*

Unity and Universality of the Budget.

- (a) Is all the State expenditure included in one general budget ? Are there special budgets, funds or accounts ? If so, what are they ? Are there establishments for the manufacture of armaments having budgetary autonomy according to the definition given in Chapter 3, page 13, of the report by the Committee of Experts on Budgetary Questions, note 2 (document C.182.M.69.1931.IX) ? Is expenditure shown on a gross or net basis ?
- (b) What are the extra-budgetary resources used for national defence purposes, including compulsory contributions of all kinds ?
- (c) Are there, apart from State administrations, public or private bodies for financing national defence expenditure ? What are the budgets (budgets of the State, "cantons", "lander", municipalities and other authorities) which include expenditure on national defence ?

Divisions of the Budget.

- (d) How is expenditure grouped and classified in the budget (ordinary and extraordinary expenditure, current expenditure and capital outlay) ?

4. *Execution of the Budget.*

- (a) Does the adoption of the budget authorise the services to employ the credits or is a special authorisation by the Finance Minister or some other authority necessary ?
- (b) What is the procedure concerning commitments, liquidation, the issuing of pay warrants and payment ¹ (passing of orders and contracts: creation, verification and acceptance of State liabilities, issue of pay orders and warrants; payments) ? What are the periods beyond the budgetary year during which such acts may be executed and charged to the accounts of a given year ?
- (c) What is the procedure concerning expenditure not provided for or not sufficiently provided for in the budget ?
- (d) What is the procedure concerning transfers as between chapters, paragraphs or items ?
- (e) Are there special authorisations for commitments ? ²
- (f) What is the procedure concerning the carrying forward of credits from one year to another ?
- (g) What are the organs which in every stage of the administration ensure the allocation of funds and how is the financing of national defence expenditure effected ?

¹ Entering into commitments regarding expenditure represents acts by which a State debt will be created.

Liquidating expenditure consists in the juridical examination of a State debt and the establishment of the amount of such debt.

The issuing of pay warrants or orders consists in (a) remitting to the creditor a document entitling him to receive payment, or (b) issuing to a pay office an order to pay.

Payment consists in liberating the State from its debt by remitting to the creditor the sum due to him.

² Special authorisations for commitment consist in authorisation to pass in the course of a year orders or contracts payment for the execution of which will be chargeable to subsequent budgets.

5. *Verification and Control.*

(a) What are the rules concerning accountancy organisation, financial supervision and control?

(b) How are supervision and control exercised during the execution of the budget? To what extent and in what way do the administrative and legislative organs exercise this supervision and control.

(c) How is verification effected after the execution of the budget? By what organs?

(d) What is the legal position of these supervisory and controlling authorities (comptrollers-general, audit offices, *cours de comptes*) in regard to the legislative and executive organs?

(e) What are the rights and duties of these organs in respect of verification, the registration and endorsement of acts of commitment, vouchers and payment orders and warrants? What particular rights do they possess to oppose illegal or irregular measures?

(f) What is the procedure and what are the time-limits for the settlement of accounts, their submission, verification, publication and final acceptance?

Note. — The Governments may, of course, if they desire, supplement their replies to the above questions with other information regarding their budgetary systems.

The Technical Committee hopes that it will be possible to give all the information in question in a document which, while being as succinct as possible, will not necessitate the consultation of national legislation.

ANNEX 3.

Conf.D./C.D.7.

RULES OF PROCEDURE FOR THE EXAMINATION OF INFORMATION SUPPLIED
BY THE GOVERNMENTS, ADOPTED BY THE TECHNICAL COMMITTEE
ON APRIL 14TH, 1932.

The purpose for which the Technical Committee, under its terms of reference, is called upon to examine the documents supplied by the various Governments concerning their expenditure on national defence is as follows:

(i) *Generally.*

To ascertain whether the model statement as drawn up by the Committee of Experts on Budgetary Questions (although not yet accepted by the Conference for the Reduction and Limitation of Armaments) is a practical instrument by means of which States can set out all the expenditure on national defence incurred by them in a given recent year.

(ii) *In particular.*

With the above end in view, to ascertain:

(a) Whether the statements of expenditure to be examined are compiled on a sufficiently uniform basis and whether the instructions and recommendations contained in the report of the Budgetary Experts, in particular those which concern the setting out of every item of expenditure on national defence and the classification of the items, have been followed.

(b) What difficulties arising out of differences in budget systems or otherwise have been met with by States in filling up the model statement.

(c) Whether the statements of expenditure to be examined are susceptible of verification either from the audited and published accounts of the State or from other authoritative documents.

(d) Whether the relations between the figures given in the model statement and the figures shown in the accounts published by the State within the country are adequately explained in the Reconciliation Tables.

With a view to accomplishing this task, the Technical Committee has adopted the following rules of procedure:

I. The Committee will examine the documents supplied by all the Powers represented at the Conference.

II. The Committee will first of all proceed, as far as possible, to examine the documents supplied by the Powers represented on the Committee.

The first Power represented on the Committee to have its documents examined will be determined by the drawing of lots. The documents of the other Powers represented on the Committee will be examined in alphabetical order as determined by the drawing of lots.

III. The Committee will then examine the documents of the Powers not represented on the Committee. The first Power not represented on the Committee whose documents are to be examined will be determined by the drawing of lots. The documents of the other Powers not represented on the Committee will be examined in alphabetical order as determined by the drawing of lots.

IV. If, before lots are drawn, one or several Powers, whether represented on the Committee or not, declare their willingness to submit their documents for the Committee's examination, the latter may decide to begin with the examination of the documents of the said Power or Powers.

V. In order to ensure the simultaneous exchange of documents, a sub-committee, consisting of two members, will examine the documents sent in by the Powers represented at the Conference, in order to determine whether the information requested by the Committee is complete and is such as to permit of its examination being begun.

VI. By a date to be fixed by the Bureau of the Committee for each Power, the members of the Committee are requested to send to the Bureau, in writing, their observations on the documents of the Power in question.

VII. All delegations not represented on the Committee are requested to send to the Bureau any observations they may desire to make, before the date indicated under VI.

VIII. The Bureau will receive and classify by Powers the observations submitted and will then send them to the delegations concerned.

Observations received after the date fixed by the Bureau, as stipulated in VI and VII, will not be transmitted to the delegations concerned.

IX. Within a time limit of ten days as from the handing-in of the observations, the delegation concerned will send to the Bureau its reply to these observations in writing.

X. Copies of the observations transmitted by the Bureau and of the replies of the delegations to the said observations will be circulated by the Bureau to the members of the Committee.

XI. At the end of a period sufficient to enable the members of the Committee to study the observations and replies, the Bureau will summon the Committee for a discussion of the whole of the information supplied by a given Power.

The delegations not represented on the Committee will be requested, when their turn comes, to send to the Committee a delegate, assisted, if he so desires, by one or several experts, to take part in the discussion on their documents.

XII. The Committee may proceed to a second examination of the documents of Powers in the case of which it may deem such a course necessary.

ANNEX 4.

Conf.D./C.D./C.T.169.

STATEMENT RELATING TO BUDGETARY DOCUMENTS SUPPLIED BY VARIOUS GOVERNMENTS.

MEMORANDUM BY SUB-COMMITTEE A.

I. List of States of which the review has been completed:

Belgium	Irish Free State	Sweden
United Kingdom	Italy	Switzerland
Czechoslovakia	Japan	Union of Soviet Socialist Republics ¹
Denmark	Netherlands	United States
France	Norway	Yugoslavia
Germany	Poland	
India	Roumania	

(Nineteen States.)

2. List of States whose documents have been placed before the Committee and are still under review:

Albania	Canada	Portugal
Australia	Finland	South Africa
Austria	New Zealand	Spain
Bulgaria		

(Ten States.)

¹ The procedure of examining the documents produced by the Soviet delegation was somewhat different from that followed for the other States, in that the representatives of the Union of Soviet Socialist Republics were not present at the meeting at which the Soviet documents were discussed by the Committee. The Minutes of the meeting were, however, sent to the Government of the Union of Soviet Socialist Republics and replies to the questions raised therein were supplied at a later date.

3. List of States whose documents, being incomplete, have not yet been laid before the Technical Committee, and list of documents already supplied by the delegations of those States.

- Afghanistan* Reply to questionnaire on budgetary systems (document Conf.D./C.D./C.T.70).
- Argentine Republic* . . . Document Conf.D.38 gives rough figures of the expenditure of the Ministry of Marine and of the Naval Air Force for 1930, together with estimates for 1931.
- Brazil* The Model Statement for 1930 contained in document Conf.D.104 is incomplete (no figures for air force).
- Chile* The data in document Conf.D.130 are taken from the budget estimates for 1932.
- China* Model Statement for 1930-31 (document Conf.D.109).
- Colombia* Document Conf.D.52 gives rough figures of estimates of budgetary expenditure for the years 1928 to 1931.
- Costa Rica* Document Conf.D.62 gives certain figures taken from the budget for 1931.
- Cuba* Reply to questionnaire on budgetary systems (document Conf.D./C.D./C.T.40).
Document Conf.D.70 contains a Model Statement for 1930-31 (without separating land and air forces) and annexed tables.
Budgets for the last five years (from 1927-28 to 1931-32).
- Egypt* Reply to questionnaire on budgetary systems (document Conf.D./C.D./C.T.166).
The Model Statement and annexed tables contained in document Conf.D.66 are taken from the budget for 1931-32.
- Estonia* Reply to the questionnaire on budgetary systems (document Conf.D./C.D./C.T.7).
Model Statement. Annexed tables (document Conf.D.15. Annex). Reconciliation Table. Budget of 1930-31 and supplementary budget, with translation. Position of credits carried over from the previous "exercice" to the budget of the year 1930-31. Closed accounts of 1930-31, with translation. Law passing the 1930-31 closed accounts.
Note. The Estonian delegation has been asked to complete the reconciliation table.
- Greece* Reply to questionnaire on budgetary systems (document Conf.D./C.D./C.T.51).
Model Statement and annexed tables. Reconciliation table (the summary reconciliation table is wanting).
Budget 1930-31. Return of payments.
- Haiti* Model Statement for 1930-31 (document Conf.D.63).
- Hungary* Reply to questionnaire on budgetary systems (document Conf.D./C.D./C.T.30).
Model Statement and annexed tables (document Conf.D.34).
Reconciliation table for dates in the Model Statement and annexed tables and dates in closed accounts for 1929-30.
Table showing the distribution of expenditure in the national defence budget. Budget for 1929-30 and closed accounts (with translation) for 1929-30.
Note. — The Hungarian delegation has been asked to prepare a new reconciliation table.
- Latvia* Reply to questionnaire on budgetary systems (document Conf.D./C.D./C.T.7).
Model Statement, without separation of the forces, in document Conf.D.28. Annexed tables. Budget for 1931-32.
Closed accounts for 1930-31.

- Liberia*. Document Conf.D.36 gives only the total national defence expenditure for 1929-30.
- Lithuania*. Reply to questionnaire on budgetary systems (document Conf.D./C.D./C.T.105).
Model Statement for 1930 (document Conf. D.67).
- Luxemburg*. Model Statement based on figures for 1932.
- Mexico*. Reply to questionnaire on budgetary systems (document Conf.D./C.D./C.T.22(1)).
Model Statement. Annexed tables. Reconciliation table. Explanations. Budget for 1930.
Note. — The Mexican delegation has been asked to amplify its reconciliation table.
- Panama*. One copy of budget for 1931-1933.
- Persia*. Reply to the questionnaire on budgetary systems (document Conf.D./C.D./C.T.49).
Model Statement and annexed tables (document Conf.D.64(1)).
Budget for 1931-32 (one copy in Persian and translation).
Return of sums paid or payable. Laws voting additional grants (one copy in Persian and translation). Statement of sums voted in budget and of extra-budgetary revenue allocated to expenditure.
- Saudi Arabia*. Document Conf.D.59 gives rough figures for national defence expenditure.
- Siam*. Reply to questionnaire on budgetary systems (documents Conf.D./C.D./C.T.135, 135a).
Model Statement for 1930-31. Annexed tables (document Conf.D.60) (document Conf.D.60 relates only to land and naval forces).
- Turkey*. Reply to questionnaire on budgetary systems (document Conf.D./C.D./C.T.60).
Model Statement for 1931 (document Conf.D.73). Rough lists of expenditure and revenue. A note by the Turkish delegation states that the reconciliation table will be prepared when the closed accounts have been passed, and that the figures in the Model Statement, although taken from the budget, may be regarded as more or less final.
- Uruguay*. Document Conf.D.51 gives only Table A of the Model Statement, taken from the budget, for the *exercice* 1930-31 extended to March 31st, 1932.
- Venezuela*. Reply to questionnaire on budgetary systems (document Conf.D./C.D./C.T.20).
(Twenty-five States.)

4. List of States which have supplied no information as to their national defence expenditure or budgetary systems:

Abyssinia
Bolivia
Dominican Republic

Guatemala
Honduras

Iraq ¹
Peru

(Seven States.)

¹ Represented at the Conference from November 1932 only.

ANNEXE 5. — ANNEX 5.
TABLEAU MONTRANT PAR QUI SONT FAITES LES DÉPENSES DE DÉFENSE NATIONALE.¹
TABLE SHOWING WHO IS RESPONSIBLE FOR NATIONAL DEFENCE EXPENDITURE.¹
(Chiffre en monnaie nationale.) — (Figures in National Currency.)

	DÉPENSES DU POUVOIR CENTRAL — EXPENDED BY CENTRAL AUTHORITIES					DÉPENSES FAITES PAR LES AUTORITÉS LOCALES EXPENDED BY LOCAL AUTHORITIES			DÉPENSES FAITES PAR LES ASSOCIATIONS ET LES PERSONNES PRIVÉES EXPENDED BY PRIVATE ASSOCIATIONS AND INDIVIDUALS <i>i</i>	TOTAL DU RELEVÉ- TYPE TOTAL OF THE MODEL STATEMENT <i>h</i>	
	EXPENDED BY CENTRAL AUTHORITIES			TOTAL <i>e</i>	EXPENDED BY LOCAL AUTHORITIES		Total <i>h</i>				
	Départements ministériels de défense nationale (Guerre, Marine, Air) <i>a</i>	Ministère des Colonies <i>b</i>	Autres départements <i>c</i>		Comptes en dépense bud- gétaires (Comptes spéciaux) <i>d</i>	Dépenses faites par les auto- rités locales métropolitaines Expended by Local Autho- rities in the Home Country <i>g</i>		EXPENDED BY THE MODEL STATEMENT <i>k</i>			
Allemagne	R.M.	688.914.389	—	18.808.235	—	707.722.624	—	—	—	707.722.624	Germany
Belgique.	Frs.	1.468.880.470 ^{2a}	—	162.832.980	4.702.118	1.336.415.568	107.717.535	—	—	1.444.133.103	Belgium
Royaume-Uni	£	106.496.892 ^{2b}	—	4.906.642	793	108.404.327	4.002.742	149.597	—	112.556.666	United Kingdom
Danemark	Cour.	42.416.688	—	2.740.518	107.921	45.265.127	—	—	—	45.265.127	Denmark
Etats-Unis.	\$	700.237.191	—	—	—	700.237.191	—	—	—	700.237.191	U.S.A.
France	Frs.	11.812.790.884 ^{2c}	485.549.370	827.858.902	13.161.147	13.139.360.303	209.023.410	74.673.105	283.696.515	13.423.056.818	France
Inde	Rp.	49.55.48.737	—	3.08.06.512	—	52.63.55.249	—	2.17.19.055	2.17.19.055	54.80.74.304	India
Etat libre d'Irlande. .	£	1.204.405	—	62.245	—	1.266.650	—	—	—	1.266.650	Irish Free State
Italie	Lire	5.085.392.294	—	615.755.806	—	5.701.148.100	464.086.321	55.583.746	519.670.067	6.220.818.167	Italy
Japon.	Yen	37.765.574	—	1.481.601	637.333	467.299.840	—	—	—	467.299.840	Japan
Norvège	Cour.	465.180.906 ^{2d}	—	725.553	—	38.491.127	—	—	—	38.491.187	Norway
Pays-Bas	Fl.	65.596.800	1.712.373	616.800	4.607.100	72.533.073	119.182.205	—	119.182.205	191.715.278	Netherlands
Pologne	Zloty	866.029.911	—	4.204.976	9.869.500	880.104.387	—	—	—	880.104.387	Poland
Roumanie	Lei	9.059.019.484	—	—	—	9.059.019.484	—	—	—	9.059.019.484	Roumania
Suède	Cour.	127.924.606	—	3.337.732	6.156.206	137.418.544	—	—	3.052.815	137.696.009	Sweden
Suisse	Frs.	99.208.424	—	3.920.357	7.404.611	110.533.392	—	—	—	113.586.207	Switzerland
Tchécoslovaquie . . .	Kc.	1.442.804.865	—	362.955.256	37.500.000	1.813.260.121	—	—	—	1.813.260.121	Czechoslovakia
U.R.S.S.	Roubles	1.042.499.466	—	1.200.000	22.952.430	1.066.651.896	—	—	19.928.000	1.095.947.326	U.S.S.R.
Yougoslavie	Dinars	2.185.621.375	—	41.076.498	465.340.810	2.692.008.683	—	—	7.500.000	2.699.508.683	Yugoslavia

¹ Le présent tableau a été établi sur la base des relevés-types présentés au Comité par les gouvernements. Des chiffres inscrits aux relevés-types ne peuvent pas toujours être considérés comme définitifs (voir notamment différentes observations figurant dans le « Recueil synthétique des renseignements présentés au Comité technique, etc. »).

² Les dépenses indiquées ci-dessus représentent les montants des ventes de fumier par les corps de troupe. Bien qu'il ne s'agisse pas d'un compte spécial, on a mentionné cette dépense dans le tableau parce qu'elle ne figure pas dans les comptes définitifs.

³ Il existe en France un compte spécial de fortifications créé par la loi du 14 janvier 1930. Il n'y avait aucune dépense inscrite à ce compte en 1930-31.

⁴ Les dépenses faites par les territoires sous mandat sont:

a) Comprises;
b) Non comprises;
c) Comprises;
d) Non comprises, à l'exception d'un très faible montant.

⁵ This table has been compiled on the basis of the Model Statements submitted by Governments to the Committee. The figures shown in Model Statements cannot always be regarded as final (see, e.g., the various remarks in the "Summary of Information supplied to the Technical Committee, etc."). Although this is not a special account, this expenditure has been mentioned in the table because it does not appear in the final accounts.

⁶ France has a special Fortifications Account established by the Law of January 14th, 1930. No expenditure was entered in this account in 1930-31.

⁷ Expenditure by mandated territories are:

(a) Included.
(b) Omitted.
(c) Included.
(d) Omitted, except for a very small amount.

ANNEX 6.

TABLE SHOWING THAT PART OF THE EXPENDITURE IN RESPECT OF THE CHIEF MIXED CHAPTERS OF CERTAIN CIVIL BUDGETS WHICH HAS BEEN REGARDED AS NATIONAL DEFENCE EXPENDITURE, ON THE BASIS OF ESTIMATES OR INTERNAL ACCOUNTS.

	Budget and sub-head	Monetary unit	Total of the sub-head in the closed account	Expenditure inserted in the Model Statement
United Kingdom	Civil estimates — Class VI, Votes 1, 2, 4, 5, 7, 8, 9, 11, 12, 13 — Works and buildings	£	4,949,749	290,458
	Civil estimates — Class VI, Vote 13 — Taxes and imposts		1,926,443	889,508
	Civil estimates — Class VI, Vote 14 — Stationery and printing		2,356,520	414,610
Czechoslovakia .	Administration of State constructions — Kap. 14, paragraph 14	Koruna	63,172,858	28,677,389
France.	Public Works Budget. Chap. 110 — Railway investigations and works carried out by the State	Franc	109,550,000	21,500,000
Germany.	Expenditure of the General Financial Administration XVII — Kap. 9 — Titel 2 — Grants in the case of emergency	RM.	6,892,751	556,281
	Expenditure of the General Financial Administration XVII — Kap. 8 — Social insurance		6,299,648	1,906,131
	Expenditure of the General Financial Administration XVII — Kap. E 18 — Construction of housing accommodation		4,721,681	1,944,213
	Ministry of Labour VII, Kap. 5 — Titel 1 — Construction of housing accommodation		1,948,489	1,730,067
	Ministry of Labour VII, Kap. 5, Titel 1a — Construction of housing accommodation		6,031,994	2,181,000
Italy	Ministry of Foreign Affairs — Capit. 27 and 33 — Miscellaneous personnel (including military and naval attachés)	Lira	55,515,966	3,776,077
	Ministry of Finance — Capit. 161 and 162 — Office expenses		67,808,342	2,842,912 ¹
Norway	General administration — Kap. 21, Council of Ministers (Minister's salary)	Krone	166,500	18,000
	General administration. Kap. 22 — Ministerial Bureau		3,127,791	315,917
	Ministry of Commerce, Navigation, Fisheries, etc. — Kap. 560. Inspection of the limits of territorial waters		178,751	178,751 ²
	Miscellaneous expenditure — Kap. 1003 — Allowances for high cost of living, etc.		1,603,548	104,606
Sweden	II. Ministry of Justice — E 1, Allowances payable to judges, witnesses, parties (approximate credit)	Krona	508,492	1,613
	II. Ministry of Justice — I 14, Allowances for high cost of living (approximate credit)		1,480,195	18,878
	IV. Ministry of Communications E 6 — Maintenance of State-owned vessels (transferable credits)		1,243,503	92,322

¹ Only the office expenses of the Central Administration of the military Ministries come under these sub-heads.

² The expenditure in respect of this service has been allocated to the Ministry of Marine on a *somewhat arbitrary basis* (see document Conf. D./C.D./C.T./Audition P.V.15, page 34).

TABLEAU RELATIF A LA CONTRÔLABILITÉ DU TITRE IV. —

ÉTATS	TITRE IV DU RELEVÉ-TYPE HEAD IV OF THE MODEL STATEMENT					
	Total inscrit au relevé		Rubriques des comptes clos qui entrent complètement dans le Titre IV		Partie des autres rubriques des comptes clos (ayant trait au Titre IV) qui a été incluse dans le Titre IV	
	Total entered in the Statement		Items of the closed accounts which come entirely under Head IV		Part of the other items of the closed accounts (relating to Head IV) which has been included in Head IV	
	Montant — Amount	%	Montant Amount	%	Montant Amount	%
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Allemagne: (R.M.)						
a) Forces terrestres . . .	123.323.292	100	101.833.051	82,6	21.490.241	17,4
b) Forces navales . . .	88.967.779	100	88.952.379	94,5	15.400	5,5
c) Forces aériennes . . .	—	—	—	—	—	—
Royaume-Uni: (£)						
a) Forces terrestres . . .	4.495.019	100	2.290.336	51,0	2.204.683	49,0
b) Forces navales . . .	23.446.354	100	14.674.184	62,6	8.772.170	37,4
c) Forces aériennes . . .	8.055.936	100	8.055.936	100	—	—
France: (Francs)						
a) Forces terrestres . . .	1.453.758.160	100	481.502.153	33	972.256.007	67
b) Forces navales . . .	1.855.939.647	100	1.122.584.564	60,5	733.355.083	39,5
c) Forces aériennes . . .	1.216.507.634	100	863.641.506	71,0	352.866.128	29,0
Italie: (Lires)						
a) Forces terrestres . . .	631.533.185	100	37.994.032	6,0	593.539.153	94,0
b) Forces navales . . .	885.051.266	100	783.884.079	88,4	101.167.187	11,6
c) Forces aériennes . . .	440.022.022	100	398.027.350	89,6	41.994.672	10,4
Japon: (Yen)						
a) Forces terrestres . . .	29.526.268	100	689.316	2,3	28.836.952	97,7
b) Forces navales . . .	152.148.322	100	143.242.048	94,1	8.906.274	5,9
c) Forces aériennes . . .	17.945.801	100	130.000	0,7	17.815.801	99,3
Norvège: (Couronnes)						
a) Forces terrestres . . .	3.496.396	100	—	—	3.496.396	100
b) Forces navales . . .	4.425.972	100	—	—	4.425.972	100
c) Forces aériennes . . .	1.203.782	100	—	—	1.203.782	100
Pologne: (Zloty)						
a) Forces terrestres . . .	219.835.854	100	105.372.144	47,9	114.463.710	52,1
b) Forces navales . . .	17.754.452	100	16.887.417	95,1	867.035	5,9
c) Forces aériennes . . .	42.462.334	100	21.063.530	49,9	21.398.804	50,1
Roumanie: (Lei)						
a) Forces terrestres . . .	823.840.453	100	816.221.565	99,1	7.618.888	0,9
b) Forces navales . . .	86.423.407	100	70.207.176	81,3	16.216.231	18,7
c) Forces aériennes . . .	549.283.474	100	519.395.357	94,5	29.888.117	5,5
Suède: (Couronnes)						
a) Forces terrestres . . .	8.635.805	100	2.526.732	29,1	6.109.073	70,9
b) Forces navales . . .	23.264.497	100	11.355.556	48,8	11.908.941	51,2
c) Forces aériennes . . .	5.525.648	100	5.042.358	91,3	483.290	8,7
Suisse: (Francs)						
a) Forces terrestres . . .	22.157.459	100	10.971.231	49,5	11.186.228	50,5
b) Forces navales . . .	—	—	—	—	—	—
c) Forces aériennes . . .	3.300.543	100	1.561.632	47,3	1.738.911	52,7
Tchécoslovaquie: (Kč)						
a) Forces terrestres . . .	325.186.176	100	6.704.587	4,8	318.481.589	95,2
b) Forces navales . . .	—	—	—	—	—	—
c) Forces aériennes . . .	144.518.904	100	—	—	144.518.904	100
U.R.S.S.: (Roubles)						
a) Forces terrestres . . .	125.183.724	100	96.176.952	76,8	29.006.772	23,2
b) Forces navales . . .	25.441.384	100	23.373.081	92,0	2.068.303	8,0
c) Forces aériennes . . .	40.253.817	100	26.745.811	66,4	13.508.006	33,6

TABLE RELATING TO THE POSSIBILITY OF CHECKING HEAD IV.

RAPPORT ENTRE LES COMPTES CLOS ET LES CHIFFRES INCLUS DANS LE TITRE IV. RELATION BETWEEN THE CLOSED ACCOUNTS AND THE FIGURES INCLUDED IN HEAD IV								STATES
Rubriques des comptes clos qui ont trait au Titre IV (total des rubriques qui entrent complètement dans le Titre IV et des rubriques dont une partie seulement a été incluse dans le Titre IV) Items of the closed accounts relating to Head IV (total of the items which come entirely under Head IV and of the items only part of which has been included in Head IV)		Rubriques des comptes clos qui entrent complètement dans le Titre IV Items of the closed accounts which come entirely under Head IV		Partie des autres rubri- ques des comptes clos (ayant trait au Titre IV) qui a été incluse dans le Titre IV Part of the other items of the closed accounts (relating to Head IV) which has been included in Head IV		Partie des rubriques des comptes clos (ayant trait au Titre IV) qui n'a pas été incluse dans le Titre IV Part of the items of the closed accounts (relating to Head IV) which has not been included in Head IV		FORCES
Montant Amount	%	Montant Amount	%	Montant Amount	%	Montant Amount	%	
(h)	(i)	(l)	(m)	(n)	(o)	(p)	(q)	(a)
142.343.896	100	101.833.051	71,5	21.490.241	15,1	19.020.694	13,4	Germany: (R.M.) a) Land forces. b) Naval forces. c) Air forces.
89.100.529	100	88.952.379	99,8	15.400	0,02	132.750	0,18	
—	—	—	—	—	—	—	—	
26.937.317	100	2.290.336	8,5	2.047.827	7,6	22.599.154	83,9	United Kingdom: (£) a) Land forces. b) Naval forces. c) Air forces.
26.287.550	100	14.674.184	55,8	8.772.170	33,4	2.841.196	10,8	
8.055.936	100	8.055.936	100	—	—	—	—	
4.768.402.775	100	481.502.153	10,1	972.256.007	20,2	3.314.644.615	69,7	France: (Francs) a) Land forces. b) Naval forces. c) Air forces.
1.942.296.444	100	1.122.584.564	57,7	733.355.083	37,6	86.356.797	4,7	
1.336.298.927	100	863.641.506	64,5	352.866.128	26,5	119.791.293	9,0	
1.738.287.732	100	37.944.032	2,2	593.539.153	34,1	1.106.754.547	63,7	Italy: (Lire) a) Land forces. b) Naval forces. c) Air forces.
1.128.744.319	100	783.884.079	69,4	101.167.187	9,0	243.693.053	21,6	
481.642.640	100	398.027.350	82,6	41.994.672	8,7	41.620.618	8,7	
70.601.401	100	689.316	1,0	28.836.952	40,7	41.075.133	58,3	Japan: (Yen) a) Land forces. b) Naval forces. c) Air forces.
187.192.981	100	143.242.048	76,5	8.906.274	4,8	35.044.659	18,7	
47.131.446	100	130.000	0,3	17.815.801	38,3	29.185.645	61,4	
4.661.453	100	—	—	3.496.396	75,0	1.165.057	25,0	Norway: (Kroner) a) Land forces. b) Naval forces. c) Air forces.
8.984.429	100	—	—	4.425.972	49,3	4.558.457	50,7	
11.444.524	100	—	—	1.203.782	10,5	10.240.742	89,5	
257.069.365	100	105.372.144	40,0	114.463.710	44,5	37.233.501	14,5	Poland: (Zloty) a) Land forces. b) Naval forces. c) Air forces.
162.134.638	100	16.887.417	10,4	867.035	0,5	144.380.186	89,1	
166.310.751	100	21.063.530	12,7	21.398.804	12,9	123.848.417	74,4	
830.800.453	100	816.221.565	98,3	7.618.888	0,9	6.960.000	0,8	Roumania: (Lei) a) Land forces. b) Naval forces. c) Air forces.
119.089.556	100	70.207.176	59,0	16.216.231	13,6	32.666.149	27,4	
568.277.737	100	519.395.357	91,4	29.888.117	5,3	18.994.263	3,3	
42.522.130	100	2.526.732	5,9	6.109.073	14,4	33.886.325	79,7	Sweden: (Kroner) a) Land forces. b) Naval forces. c) Air forces.
44.531.797	100	11.355.556	25,5	11.908.941	27,0	20.167.300	47,5	
12.106.488	100	5.042.358	41,6	483.290	4,0	6.580.840	54,4	
33.953.243	100	10.971.231	32,3	11.186.228	33,0	11.795.784	34,7	Switzerland: (Francs) a) Land forces. b) Naval forces. c) Air forces.
—	—	—	—	—	—	—	—	
17.727.949	100	1.561.632	8,8	1.738.911	9,8	14.427.406	81,4	
1.095.678.032	100	6.704.587	0,6	318.481.589	29,1	770.491.856	70,3	Czechoslovakia: (Kč) a) Land forces. b) Naval forces. c) Air forces.
—	—	—	—	—	—	—	—	
1.165.655.076	100	—	—	144.518.904	12,4	1.021.136.172	87,6	
141.030.402	100	96.176.952	68,2	29.006.772	20,6	15.846.678	11,2	U.S.S.R: (Rubles) a) Land forces. b) Naval forces. c) Air forces.
62.537.524	100	23.373.081	37,4	2.068.303	3,3	37.096.140	59,3	
84.837.267	100	26.745.311	31,5	13.508.006	15,9	44.583.450	52,6	

ANNEX 8.

INFORMATION REFERRING TO THE PROBLEM OF THE CHANGES IN THE PURCHASING POWER OF THE CURRENCY OF VARIOUS COUNTRIES.

NOTE BY THE FINANCIAL SECTION AND ECONOMIC INTELLIGENCE SERVICE.

The statistical data serving as basis for the diagrams on exchange fluctuations and price movements given in the text of the report are shown in detail in Table II. This table covers all non-gold-standard countries for which regular information on these subjects is available in Geneva and includes in addition all the more important countries which, up to the end of February 1933, either remained on a free gold standard or by means of some system of exchange control officially maintained the external value of their currencies in the neighbourhood of gold parity. In the absence of any true exchange quotations and of any cost-of-living index for the Union of Socialist Soviet Republics and in view of the fact that the publication of the wholesale price index for that country has been discontinued since November 1930, it has been omitted from the table.

The countries are given in the French alphabetic order. Their position with regard to the gold standard emerges from the synoptical Table I, which indicates in appropriate cases the date since when (1) the gold standard has been suspended, (2) official exchange control is applied, (3) the external value of the currency (according to foreign quotations) has been depreciated below the gold export point.

In the upper part of Table II the various national indices of wholesale prices and of cost of living are reproduced in their original form—*i.e.*, without recalculation on a common base period.¹ In order to facilitate comparison between exchange and price movements, the exchange rates are given in the form of indices showing—according to New York quotations—the cost of a U.S. dollar in the currency of each country as a percentage of its cost at par.²

In the lower part of Table II all wholesale and cost-of-living indices have been re-calculated on the common base period September 1931 = 100 in order to facilitate comparison of price developments in gold and paper currency countries subsequent to the suspension of the gold standard by the United Kingdom and almost simultaneously by a large number of other countries.

Geneva, March 1933.

¹ For the purpose of the diagrams given in the text of the report, however, these indices have all been re-calculated on the base of the average for the first half-year 1929 = 100.

² In the diagram on exchange rates given in the text of the report, these indices have been reversed and thus show the percentage depreciation of the various currencies in terms of gold.

Tableau I. — Table I.

TABEAU SYNOPTIQUE DE LA POSITION DES DIFFÉRENTS PAYS QUANT A L'ÉTALON-OR.
SYNOPTIC VIEW OF POSITION OF VARIOUS COUNTRIES WITH REGARD TO GOLD STANDARD.

Pays — Country	Suspension de l'étalon-or Suspension of gold standard		Contrôle des devises étrangères Foreign exchange control		Dépréciation par rapport à la parité-or Depreciation in relation to gold		Pays — Country	Suspension de l'étalon-or Suspension of gold standard		Contrôle des devises étrangères Foreign exchange control		Dépréciation par rapport à la parité-or Depreciation in relation to gold	
	A		B		C			A		B		C	
Afrique du Sud — South Africa (Union)	28. XII. 32		—		I. 33		Italie — Italy	—		—		IX. 31	
Albanie — Albania	—		—		—		Japon — Japan	13. XII. 31		1. VII. 32		XII. 31	
Allemagne — Germany	—		13. VII. 31		—		Lettonie — Latvia	—		8. X. 31		—	
Argentine	16. XII. 29		10. X. 31		XI. 29		Lithuanie — Lithuania	—		—		—	
Australie — Australia	17. XII. 29		—		III. 30		Malaisie britannique — British Malaya	24. IX. 31		—		IX. 31	
Autriche — Austria	—		9. X. 31		(X. 31)		Mexique — Mexico	25. VII. 31		—		VIII. 31	
Belgique — Belgium	—		—		—		Nicaragua	—		—		I. 32	
Bolivie — Bolivia	25. IX. 31		3. X. 31		II. 32		Norvège — Norway	29. IX. 31		—		IX. 31	
Bresil — Brazil	(1)		18. V. 31		XII. 29		Nouvelle-Zélande — New Zealand	(1) 1. I. 32		—		IV. 30	
Bulgarie — Bulgaria	—		15. X. 31		—		Palestine	21. IX. 31		—		IX. 31	
Canada	19. X. 31		—		IX. 31		Panama	—		—		—	
Chili — Chile	20. IV. 32		30. VII. 31		IV. 32		Paraguay	(5)		VIII. 32		(5)	
Chine — China	(2)		—		(2)		Pays-Bas — Netherlands	—		—		V. 32	
Colombie — Colombia	21. IX. 31		21. IX. 31		I. 32		Pérou — Peru	18. V. 32		—		(6)	
Costa-Rica	—		16. I. 32		—		Perse — Persia	(6)		27. V. 32		(4)	
Danemark — Denmark	29. IX. 31		18. XI. 31		IX. 31		Philippines	(4)		—		—	
Dantzig — Danzig	—		—		—		Pologne — Poland	—		—		—	
Egypte — Egypt	26. IX. 31		—		IX. 31		Portugal	31. XII. 31		21. X. 32		X. 31	
Equateur — Ecuador	9. II. 32		30. IV. 32		VI. 32		Roumanie — Roumania	—		17. V. 32		—	
Espagne — Spain	(1)		18. V. 31		1920		Royaume-Uni — United Kingdom	21. IX. 31		—		IX. 31	
Estonie — Estonia	—		18. XI. 31		—		Salvador	8. X. 31		—		X. 31	
Etats-Unis — United States (3)	(8)		—		—		Siam	11. V. 32		—		VI. 32	
Finlande — Finland	12. X. 31		—		X. 31		Suède — Sweden	29. IX. 31		—		IX. 31	
France — Greece	26. IV. 32		28. IX. 31		—		Suisse — Switzerland	—		—		—	
Guatemala	—		—		IV. 32		Tchécoslovaquie — Czechoslovakia	—		26. IX. 31		—	
Honduras	(4)		(4)		—		Turquie — Turkey	(4)		26. II. 30		1915	
Hongrie — Hungary	—		17. VII. 31		(4)		U.R.S.S. — U.S.S.R.	(7)		(7)		(7)	
Indes anglaises — British India	21. IX. 31		—		IX. 31		Uruguay	(1) XII. 29		7. IX. 31		IV. 29	
Indes néerlandaises — Dutch East Indies	—		—		—		Venezuela	—		—		IX. 30	
Irlande (Etat libre) — Irish Free State	26. IX. 31		—		IX. 31		Yougoslavie — Yugoslavia	—		7. X. 31		(VII. 32)	

A. Suspension officielle de l'étalon-or ou interdiction des exportations d'or.
B. Contrôle officiel des opérations en devises étrangères; les restrictions temporaires qui ne sont plus en vigueur et les restrictions non officielles, par les banques, etc., ne sont pas mentionnées.
C. D'après les cours des changes à New-York ou Bâle. Les chiffres entre parenthèses se réfèrent à une dépréciation effective d'après les cotations courantes dans l'un ou l'autre de ces centres, pour les pays dans lesquels les changes étrangers sont encore cotés près de la parité monétaire.
(1) L'étalon-or n'a pas été établi depuis la guerre dans les pays suivants: Brésil, Espagne, Nouvelle-Zélande, Turquie, Uruguay; cependant la Nouvelle-Zélande et l'Uruguay étaient revenus de fait à la parité-or après la guerre.
(2) Chine: Etalon-argent.
(3) La monnaie des Etats-Unis est utilisée aussi par Cuba, la République Dominicaine, Haiti et Panama; ces pays n'ont pas de système monétaire complet qui leur soit propre.
(4) Honduras, Philippines: Etalon de change basé exclusivement sur le dollar.
(5) Paraguay: Etalon de change basé exclusivement sur le peso argentin.
(6) Perse: Jusqu'à mars 1932, étalon-argent. A ce moment une parité-or a été légalement fixée pour le réal, mais en fait le cours du réal a suivi approximativement le cours de la livre sterling.
(7) U.R.S.S.: Toutes les transactions en monnaies étrangères sont monopolisées par l'Etat.
(8) Interdiction temporaire des exportations d'or depuis le 6.III.1933.

A. Official suspension of gold-standard or prohibition of gold exports.
B. Official control of foreign exchange transactions; temporary official restrictions which are no longer in force and unofficial restrictions by banks, etc., are disregarded.
C. According to New York or Basle quotations. Figures in brackets relate to effective depreciation according to current quotations in either of these centres on countries where foreign exchange rates are still officially quoted in the neighbourhood of mint parities.
(1) The gold standard has not been legally established since the war in the following countries: Brazil, Spain, New Zealand, Uruguay and Turkey; New Zealand and Uruguay, however, reverted *de facto* to the gold parity after the war.
(2) China: Silver standard.
(3) United States currency in use also in Cuba, the Dominican Republic, Haiti and Panama, which have no comprehensive currency system of their own.
(4) Honduras, Philippines: Dollar exchange standard.
(5) Paraguay: Argentine peso exchange standard.
(6) Persia: Until March 1932, silver standard. At that time a gold parity was legally fixed for the real, which however, followed approximately the rate of the £ sterling.
(7) U.S.S.R.: All foreign exchange transactions are monopolised by the State.
(8) Gold exports temporarily prohibited since 6.III.1933.

Tableau II. — Table II.
INDICES DU COURS DU DOLLAR, DES PRIX DE GROS ET DU COÛT DE LA VIE DANS CERTAINS PAYS.
INDICES OF THE DOLLAR EXCHANGE AND OF WHOLESALE PRICES AND COST OF LIVING IN VARIOUS COUNTRIES.

Pays Country	AFRIQUE DU SUD SOUTH AFRICA			ALLEMAGNE — GERMANY			ARGENTINE			AUSTRALIE — AUSTRALIA			AUTRICHE — AUSTRIA			BELGIQUE — BELGIUM		
Indices de: Indices of:	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie
	Cost of \$ as % of its cost at par	Wholesale prices 1913 = 100	Cost of living 1913-14 = 100	Cost of \$ as % of its cost at par	Wholesale prices 1913 = 100	Cost of living 1913-14 = 100	Cost of \$ as % of its cost at par	Wholesale prices 1913 = 100	Cost of living XI/1914 = 100	Cost of \$ as % of its cost at par	Wholesale prices 1913 = 100	Cost of living XI/1914 = 100	Cost of \$ as % of its cost at par	Wholesale prices I-VII/1914 = 100	Cost of living VII/1914 = 100	Cost of \$ as % of its cost at par	Wholesale prices IV/1914 = 100	Cost of living 1921 = 100
1929 XII 1930 XII 1931 VII VIII IX X XI XII	100.19 100.74 100.53 100.72 100.68 103.88 101.71 102.50 100.87 104.06 103.24	— — — 98.1 — — — 98.6 — — —	152.6 144.6 137.8 137.4 134.9 134.0 134.0 133.1 133.1 133.1 133.1	99.49 99.92 100.37 100.53 100.69 101.71 102.50 100.84 100.86	134.3 117.8 112.3 111.7 110.2 108.6 107.4 106.6 103.7	152.6 144.6 137.8 137.4 134.9 134.0 134.0 133.1 133.1 133.1 133.1	103.74 127.70 137.33 138.05 149.41 161.62 185.54 183.96 164.86	94.4 87.0 86.6 85.8 86.2 86.9 86.9 86.4 93.5	161.8 128.6 131.0 131.3 128.5 127.8 128.4 131.0 131.0	162.0 134.8 128.0	161.8 128.6 131.0 131.3 128.5 127.8 128.4 131.0 131.0	101.35 108.97 130.30 130.53 130.49 130.89 132.98 170.40 181.25	161.8 128.6 131.0 131.3 128.5 127.8 128.4 131.0 131.0	162.0 134.8 128.0	161.8 128.6 131.0 131.3 128.5 127.8 128.4 131.0 131.0	101.35 108.97 130.30 130.53 130.49 130.89 132.98 170.40 181.25	161.8 128.6 131.0 131.3 128.5 127.8 128.4 131.0 131.0	162.0 134.8 128.0
1932 I II III IV V VI VII VIII IX X XI XII	103.31 103.29 102.46 102.85 101.45 101.41 101.74 101.92 102.07 102.27 101.90 101.57	96.3 — 94.4 — — 89.1 — — 86.9 — — —	124.5 122.3 122.4 121.7 121.4 121.4 120.3 119.5 118.4 118.8 118.4	100.73 100.35 100.17 100.33 100.11 100.44 100.46 100.17 100.22 100.29 100.14	100.0 99.8 98.8 98.4 97.2 96.2 95.9 95.4 93.9 92.4	124.5 122.3 122.4 121.7 121.4 121.4 120.3 119.5 118.4 118.8 118.4	165.57 165.71 165.52 165.72 165.41 164.86 164.75 164.67 164.68 164.68 164.68	91.4 91.8 92.2 91.4 90.7 90.0 89.6 88.6 87.5 87.1 85.3	430.0 438.2 432.2 431.5 429.4 427.8 428.4 430.1 432.4 429.0 425.6	— — 422.8 — — 421.6 — 419.7 — — —	430.0 438.2 432.2 431.5 429.4 427.8 428.4 430.1 432.4 429.0 425.6	177.64 176.35 167.48 182.61 185.86 187.15 171.72 175.61 179.48 186.10 185.91	430.0 438.2 432.2 431.5 429.4 427.8 428.4 430.1 432.4 429.0 425.6	— — 422.8 — — 421.6 — 419.7 — — —	177.64 176.35 167.48 182.61 185.86 187.15 171.72 175.61 179.48 186.10 185.91	430.0 438.2 432.2 431.5 429.4 427.8 428.4 430.1 432.4 429.0 425.6	— — 422.8 — — 421.6 — 419.7 — — —	
1933 I II III	140.87 142.78 —	87.3 — —	117.4 116.9 —	100.21 100.00 —	91.0 91.2 —	117.4 116.9 —	164.68 164.68 —	— — —	— — —	100.71 100.60 —	108 106 —	106 105 —	100.30 99.58 —	521 512 —	— — —	— — —	— — —	
1931 IX X XI XII	— — — —	100.0 — — —	100.0 99.3 98.4 97.3	— — — —	100.0 98.6 98.2 95.5	100.0 99.3 98.4 97.3	— — — —	— — — —	— — — —	100.0 100.9 103.7 103.7	100.0 100.9 103.7 103.7	100.0 100.9 103.7 103.7	— — — —	100.0 99.0 97.8 96.0	100.0 99.5 98.5 96.0	— — — —	— — — —	
1932 I II III IV V VI VII VIII IX X XI XII	— — — — — — — — — — — —	97.7 — — 95.7 — 90.4 — — 88.1 — — —	92.9 91.3 91.3 90.8 90.4 90.6 88.3 89.8 87.6 86.8 85.1	— — — — — — — — — — — —	100.0 98.6 98.2 95.5	100.0 99.3 98.4 97.3	100.0 110.9 111.3 107.6	— — — —	— — — —	100.0 100.9 103.7 103.7	100.0 100.9 103.7 103.7	100.0 100.9 103.7 103.7	— — — —	100.0 99.0 97.8 96.0	100.0 99.5 98.5 96.0	— — — —	— — — —	
1933 I II III	— — —	88.5 — —	87.6 87.2 —	— — —	83.8 84.0 —	87.6 87.2 —	— — —	— — —	— — —	100.0 98.1 —	100.0 98.1 —	100.0 98.1 —	— — —	87.3 85.8 —	— — —	— — —	— — —	

BASE : SEPT. 1931 = 100.

INDICES DU COURS DU DOLLAR, DES PRIX DE GROS ET DU COÛT DE LA VIE DANS CERTAINS PAYS (suite).
INDICES OF THE DOLLAR EXCHANGE AND OF WHOLESALE PRICES AND COST OF LIVING IN VARIOUS COUNTRIES (continued).

Pays Country	BOLIVIE BOLIVIA	BRESIL BRAZIL	ROYAUME-UNI UNITED KINGDOM	BULGARIE — BULGARIA		CANADA		CHILI — CHILE		COLOMBIE COLOMBIA	
Indices de:	Prix du \$ en % de son prix au pair	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Coût de la vie	Prix du \$ en % de son prix au pair	Coût de la vie
Indices of:	Cost of living at par	Cost of living at par	Wholesale prices 1913 = 100	Cost of living VII 1914 =100	Cost of living at par	Wholesale prices 1913 = 100	Cost of living 1914=100	Cost of living at par	Cost of living III/ 1928=100	Cost of living at par	Cost of living I-IV/ 1923=100
1929 XII	401.39	105.93	132.5	167	99.93	450.3	156	100.62	115	100.98	97.1
1930 XII	403.04	124.45	108.9	155	100.74	421.6	145	100.58	110	100.81	79.2
1931 VI	403.84	159.53	103.2	147	100.61	412.8	143	100.66	104	100.79	77.9
VII	404.53	186.30	102.2	145	100.57	412.0	136	100.72	105	100.79	77.5
VIII	404.33	187.82	99.5	145	100.98	410.8	134	100.92	106	100.79	72.2
IX	411.10	202.42	98.2	145	100.89	409.4	132	101.92	106	100.79	70.7
X	428.80	212.85	104.4	146	101.36	110.0	132	100.81	104	100.79	68.9
XI	428.02	183.88	106.4	148	101.20	112.37	131	100.76	103	100.79	—
XII	443.92	182.32	105.8	147	101.06	109.8	131	100.82	105	100.79	—
1932 I	443.19	194.27	105.8	147	101.02	108.4	129	100.96	97	101.74	—
II	442.93	193.83	105.3	146	101.11	117.47	128	100.96	96	102.20	—
III	446.87	192.58	104.6	144	100.67	107.9	128	100.88	100	102.20	—
IV	454.52	182.87	102.4	143	100.32	106.8	125	114.20	102	102.20	—
V	475.53	167.80	100.7	142	100.31	105.7	124	202.77	105	102.20	—
VI	478.30	159.49	98.1	143	100.33	104.0	124	202.09	108	102.20	—
VII	480.42	157.49	97.7	141	99.91	104.0	125	201.93	108	102.20	—
VIII	480.63	156.95	99.5	144	100.24	104.3	124	201.82	114	102.20	—
IX	482.09	157.06	102.1	143	100.29	104.5	123	201.38	127	102.20	—
X	485.65	156.97	101.4	143	100.33	101.5	123	201.93	130	102.20	—
XI	494.30	168.79	101.1	143	100.33	101.2	123	201.84	132	102.20	—
XII	199.29	156.73	101.0	142	100.33	115.47	122	201.85	133	102.20	—
1933 I	—	156.68	100.3	141	100.40	99.8	—	201.84	—	102.20	—
II	—	156.69	—	—	100.33	—	—	201.83	—	103.08	—
III	—	—	—	—	—	—	—	—	—	—	—
1931 IX	—	—	100.0	100.0	—	100.0	100.0	—	100.0	—	100.0
X	—	—	105.2	100.7	—	100.5	100.0	—	98.1	—	97.5
XI	—	—	107.3	102.1	—	100.8	99.2	—	97.2	—	—
XII	—	—	106.7	101.4	—	100.4	99.2	—	99.1	—	—
1932 I	—	—	106.7	101.4	—	99.1	97.7	—	91.5	—	—
II	—	—	106.1	100.7	—	98.8	97.0	—	90.6	—	—
III	—	—	105.4	99.3	—	98.5	97.0	—	94.3	—	—
IV	—	—	103.2	98.6	—	97.6	94.7	—	96.2	—	—
V	—	—	101.5	97.9	—	96.6	93.9	—	99.1	—	—
VI	—	—	98.9	98.6	—	95.1	93.9	—	101.9	—	—
VII	—	—	98.5	97.2	—	95.1	94.7	—	101.9	—	—
VIII	—	—	100.3	97.2	—	95.1	93.9	—	101.9	—	—
IX	—	—	102.9	98.6	—	95.5	93.2	—	107.5	—	—
X	—	—	101.9	98.6	—	95.5	92.8	—	119.8	—	—
XI	—	—	101.9	98.6	—	92.5	93.2	—	122.6	—	—
XII	—	—	101.8	97.9	—	91.4	93.2	—	124.5	—	—
1933 I	—	—	101.1	97.2	—	91.2	—	—	125.5	—	—
II	—	—	—	—	—	—	—	—	—	—	—
III	—	—	—	—	—	—	—	—	—	—	—

BASE: SEPT. 1931 = 100

INDICES DU COURS DU DOLLAR, DES PRIX DE GROS ET DU CÔUT DE LA VIE DANS CERTAINS PAYS (suite).
INDICES OF THE DOLLAR EXCHANGE AND OF WHOLESALE PRICES AND COST OF LIVING IN VARIOUS COUNTRIES (continued).

Pays Country	DANEMARK — DENMARK				ÉGYPTE — EGYPT		ÉQUATEUR ECUADOR		ESPAGNE — SPAIN			ÉTATS-UNIS UNITED STATES			FINLANDE — FINLAND		
	Prix du \$ en % de son prix au pair	Prix de gros	Côut de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Côut de la vie	Prix du \$ en % de son prix au pair	Côut de la vie	Prix de gros	Côut de la vie (denrées aliment.)	Côut de Living (foodstuffs)	Prix du franc en % de son prix au pair	Prix de gros	Côut de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Côut de la vie
Indices de:	Cost of living VII/1914 = 100	Wholesale prices 1913 = 100	Cost of living VII/1914 = 100	Cost of \$ as % of its cost at par	Wholesale prices I/1913- VII/1914 = 100	Cost of living I/1913- VII/1914 = 100	Cost of \$ as % of its cost at par	Cost of living VII/1914 = 100	Wholesale Prices 1913 = 100	Cost of Living (foodstuffs) VII/1914 = 100	Cost of French franc as % of its cost at par	Cost of \$ as % of its cost at par	Wholesale prices 1926 = 100	Cost of living 1923 = 100	Cost of \$ as % of its cost at par	Wholesale Prices 1926 = 100	Cost of living I/VI/1914 = 100
1929 XII	99.88	146	170	99.69	110	150	100.0	181	172	181	100.54	93.3	93.3	100.4	99.68	95	159
1930 XII	400.22	120	159	100.21	102	142	100.0	204	175	204	100.29	79.6	79.6	92.6	99.68	86	148
1931 VII	400.07	410	154	100.03	97	135	100.0	189	170	189	99.95	72.4	72.4	85.9	100.07	83	133
VIII	400.24	410	—	100.22	94	134	100.0	193	175	193	100.09	72.0	72.0	85.9	100.12	82	133
VIII	400.26	409	—	100.18	92	135	100.0	195	177	195	100.04	72.1	72.1	85.9	100.15	81	135
IX	106.08	409	—	100.48	91	136	100.0	199	178	199	100.20	71.2	71.2	84.6	100.24	79	132
X	121.70	113	154	107.40	95	137	100.0	200	175	200	100.52	70.3	70.3	84.9	108.11	82	132
XI	129.65	117	—	130.43	92	136	100.0	203	176	203	100.06	70.2	70.2	83.9	126.95	87	135
XII	144.18	119	—	144.25	91	136	100.0	205	177	205	100.13	68.6	68.6	83.1	148.69	92	137
1932 I	141.94	118	154	141.83	89	138	100.0	199	176	199	100.29	67.3	67.3	81.4	167.50	94	137
II	140.90	119	—	140.80	91	136	100.0	199	178	199	100.51	66.3	66.3	80.1	167.74	93	136
III	133.92	117	155	133.72	93	134	100.0	195	180	195	100.37	66.0	66.0	79.6	157.26	92	136
IV	130.54	115	—	129.78	90	134	100.0	187	181	187	100.64	65.5	65.5	78.8	146.30	89	134
V	133.55	114	—	132.42	86	131	100.0	184	177	184	100.74	64.4	64.4	77.9	146.67	88	133
VI	134.50	113	154	133.45	81	130	100.0	179	174	179	100.17	63.9	63.9	77.2	147.98	87	131
VII	139.55	115	—	137.10	77	128	100.0	172	172	172	100.07	62.5	62.5	77.0	164.07	89	132
VIII	144.86	117	—	143.40	78	128	100.0	178	171	178	100.02	63.2	63.2	76.8	166.63	89	133
IX	149.06	118	156	140.20	78	128	100.0	180	171	180	100.00	63.3	63.3	76.6	168.43	90	132
X	151.91	120	—	143.30	80	130	100.0	184	169	184	100.22	64.4	64.4	76.1	189.90	90	132
XI	156.90	119	—	148.59	79	134	100.0	186	170	186	100.03	63.9	63.9	75.6	174.40	91	135
XII	157.58	119	—	148.43	76	130	100.0	179	169	179	99.63	62.6	62.6	75.1	176.87	90	133
1933 I	158.48	117	155	144.78	—	—	125.0	—	—	—	99.63	61.0	61.0	73.7	172.76	90	132
II	175.60	124	—	142.21	—	—	—	—	—	—	100.13	—	—	—	168.81	—	—
III	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1931 IX	—	400.0	—	—	400.0	100.0	—	400.0	100.0	400.0	—	100.0	100.0	400.0	—	100.0	100.0
X	—	403.7	400.0	—	404.4	100.7	—	400.5	98.3	400.5	—	98.7	98.7	99.2	—	103.8	100.0
XI	—	407.3	—	—	401.1	100.0	—	402.0	98.9	402.0	—	98.6	98.6	98.0	—	102.3	100.0
XII	—	109.2	—	—	100.0	100.0	—	403.0	99.4	403.0	—	96.3	96.3	97.1	—	103.8	100.0
1932 I	—	108.3	400.0	—	97.8	401.5	—	100.0	98.9	100.0	—	94.5	94.5	95.1	—	103.8	100.0
II	—	109.2	—	—	100.0	100.0	—	100.0	100.0	100.0	—	93.1	93.1	93.6	—	103.0	100.0
III	—	107.3	—	—	102.2	38.5	—	98.0	101.4	98.0	—	92.7	92.7	93.0	—	103.0	100.0
IV	—	105.5	100.6	—	98.9	36.3	—	99.0	101.7	99.0	—	92.0	92.0	92.1	—	101.5	100.0
V	—	104.6	—	—	94.5	36.3	—	92.5	99.4	92.5	—	91.0	90.4	91.0	—	100.8	100.0
VI	—	103.7	—	—	89.0	35.6	—	89.9	97.8	89.9	—	89.7	89.7	90.2	—	99.2	100.0
VII	—	105.5	100.0	—	85.7	35.6	—	89.6	96.6	89.6	—	91.6	90.6	90.0	—	100.0	100.0
VIII	—	107.3	—	—	85.7	34.1	—	89.4	96.1	89.4	—	91.7	91.7	89.7	—	100.8	100.0
IX	—	109.2	—	—	85.7	34.1	—	90.5	96.1	90.5	—	91.6	90.4	89.5	—	100.0	100.0
X	—	108.3	401.3	—	87.9	35.6	—	92.5	94.9	92.5	—	89.7	89.7	88.9	—	102.3	100.0
XI	—	140.1	—	—	86.8	35.6	—	89.5	95.5	89.5	—	87.9	87.9	88.3	—	102.3	100.0
XII	—	109.2	—	—	83.5	35.6	—	89.9	94.9	89.9	—	87.9	87.9	87.7	—	100.8	100.0
1933 I	—	107.3	400.6	—	—	—	—	—	—	—	—	—	85.7	86.4	—	100.0	100.0
II	—	113.8	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
III	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

BASE: SEPT. 1931 = 100.

INDICES DU COURS DU DOLLAR, DES PRIX DE GROS ET DU COÛT DE LA VIE DANS CERTAINS PAYS (suite).
INDICES OF THE DOLLAR EXCHANGE AND OF WHOLESALE PRICES AND COST OF LIVING IN VARIOUS COUNTRIES (continued).

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Pays Country	FRANCE.			GRÈCE — GREECE			HONGRIE — HUNGARY			INDE — INDIA			IRLANDE, Etat libre d' IRISH FREE STATE	
Indices de	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Coût de la vie
Indices of	Cost of \$ as % of its cost at par	Wholesale prices 1913 = 100	Cost of living VII/1914 = 100	Cost of \$ as % of its cost at par	Wholesale prices 1913-14 = 100	Cost of living 1914 = 100	Cost of \$ as % of its cost at par	Wholesale prices 1913 = 100	Cost of living 1913 = 100	Cost of \$ as % of its cost at par VII.1914 = 100 Bombay	Wholesale prices VII.1914 = 100 Calcutta	Cost of Living VII.1914 = 100	Cost of \$ as % of its cost at par VII.1914 = 100	Cost of living VII.1914 = 100
1929 XII	99.46	596	565	99.88	—	—	99.90	107	413	100.38	134	450	99.69	179
1930 XII	99.71	541	597	100.25	1,541	—	99.97	90	100	101.58	100	421	100.21	164
1931 VI	100.05	518	—	100.20	1,474	1,668	100.26	91	100	101.39	93	409	100.03	—
VII	99.91	500	—	100.29	1,459	1,658	100.27	95	102	101.42	93	408	100.22	—
VIII	99.96	488	—	100.32	1,417	1,643	100.22	92	102	101.55	92	408	100.18	157
IX	99.80	473	565	100.39	1,420	1,633	100.23	96	103	107.63	91	408	107.40	—
X	99.48	457	—	100.72	1,436	1,641	100.15	97	102	127.26	96	408	125.13	—
XI	99.94	447	531	100.76	1,429	1,647	100.13	99	100	130.41	97	408	130.82	165
XII	99.87	442	—	100.76	1,428	1,646	100.18	99	100	143.92	98	409	144.25	—
1932 I	99.71	439	—	100.78	1,472	1,643	100.23	98	99	141.37	97	410	141.83	—
II	99.49	446	534	100.79	1,478	1,631	100.29	99	98	140.20	97	410	140.80	162
III	99.63	444	—	100.79	1,568	1,657	100.31	99	98	133.64	94	411	133.72	—
IV	99.36	439	—	105.35	1,639	1,697	100.34	97	97	130.31	92	408	129.78	—
V	99.26	438	535	195.41	1,846	1,768	100.30	97	99	133.61	89	407	132.42	159
VI	99.53	425	—	203.18	1,900	1,830	100.09	96	99	136.36	86	407	133.45	—
VII	99.93	430	—	202.80	1,910	1,841	100.16	94	98	136.78	87	409	137.10	—
VIII	99.98	415	517	205.27	1,884	1,822	100.22	89	99	139.54	91	409	140.02	153
IX	100.00	413	—	214.14	1,896	1,841	100.14	90	99	139.21	91	409	140.20	—
X	99.78	412	—	215.78	1,901	1,856	100.26	86	98	142.13	91	409	143.30	—
XI	99.97	413	516	225.96	1,939	1,863	100.31	82	96	147.28	90	410	148.59	155
XII	100.37	413	—	239.52	1,983	1,877	100.36	81	95	147.22	88	410	148.43	—
1933 I	100.37	411	—	240.67	—	1,914	100.37	82	95	143.67	87	409	144.78	—
II	99.88	404	—	231.32	—	—	100.32	—	—	141.29	—	—	142.21	—
III	—	—	—	—	—	—	—	—	—	—	—	—	—	—
BASE: SEPT. 1931 = 100														
1931 IX	—	100.0	100.0	—	100.0	100.0	—	100.0	100.0	—	100.0	100.0	—	—
X	—	96.6	—	—	101.1	100.5	—	101.0	99.0	—	103.5	100.0	—	—
XI	—	94.5	94.0	—	100.6	100.9	—	103.1	97.1	—	106.6	100.0	—	100.0
XII	—	93.4	—	—	100.6	100.8	—	—	97.1	—	107.7	100.9	—	—
1932 I	—	92.8	—	—	103.7	100.6	—	102.1	96.1	—	106.6	101.9	—	—
II	—	94.3	94.5	—	104.1	101.5	—	103.1	95.1	—	106.6	101.9	—	98.2
III	—	93.9	—	—	110.4	103.9	—	103.1	95.1	—	103.3	102.8	—	—
IV	—	92.8	—	—	118.9	103.9	—	101.0	94.2	—	101.4	100.0	—	—
V	—	92.6	94.7	—	130.0	107.0	—	101.0	96.1	—	97.8	99.1	—	96.4
VI	—	89.9	—	—	133.8	112.1	—	100.0	96.1	—	94.5	99.1	—	—
VII	—	90.9	—	—	134.5	110.9	—	97.9	95.1	—	95.6	100.9	—	—
VIII	—	87.7	91.5	—	132.7	114.6	—	92.7	96.1	—	100.0	100.9	—	92.7
IX	—	87.3	—	—	133.7	112.7	—	93.8	96.1	—	100.0	100.9	—	—
X	—	87.1	—	—	133.9	113.7	—	89.6	95.1	—	100.0	100.9	—	—
XI	—	87.3	91.3	—	136.5	114.1	—	85.4	93.2	—	98.9	101.9	—	93.9
XII	—	87.3	—	—	139.6	114.9	—	84.4	92.2	—	96.7	101.9	—	—
1933 I	—	86.9	—	—	142.3	117.2	—	85.4	92.2	—	95.6	100.9	—	—
II	—	—	—	—	—	—	—	—	—	—	—	—	—	—
III	—	—	—	—	—	—	—	—	—	—	—	—	—	—

INDICES DU COURS DU DOLLAR, DES PRIX DE GROS ET DU COÛT DE LA VIE DANS CERTAINS PAYS (suite).
INDICES OF THE DOLLAR EXCHANGE AND OF WHOLESALE PRICES AND COST OF LIVING IN VARIOUS COUNTRIES (continued).

Pays Country	ITALIE — ITALY			JAPON — JAPAN			MEXIQUE MEXICO	NORVÈGE — NORWAY			NOUVELLE-ZÉLANDE NEW ZEALAND			PAYS-BAS — NETHERLANDS		
	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair
Indices de	Cost of \$ as % of its cost at par	Wholesale prices 1913 = 100	Cost of living 1/VI/1914 = 100	Cost of \$ as % of its cost at par	Wholesale prices 1913 = 100	Cost of living VIII/1914 = 100	Cost of \$ as % of its cost at par	Wholesale prices 1913 = 100	Cost of living VII/1914 = 100	Cost of \$ as % of its cost at par	Wholesale prices 1914 = 100	Cost of living 1926-30 = 100	Cost of \$ as % of its cost at par	Wholesale prices 1913 = 100	Cost of living 1911-13 = 100	
1929 XII	100.52	459	549	101.81	454.9	171	103.82	99.92	152	166	100.60	99.6	99.60	135	197	
1930 XII	100.48	369	508	100.46	421.5	140	109.44	100.22	430	159	102.61	93.3	99.82	107	157	
1931 VI	100.54	339	488	100.96	413.9	134	101.66	100.07	120	151	109.54	—	99.88	100	154	
VII	100.63	337	486	101.00	415.5	134	101.70	100.24	120	152	109.74	—	99.80	97	—	
VIII	100.63	331	484	101.00	414.7	134	101.70	100.25	120	152	109.70	89.1	99.70	94	—	
IX	101.80	330	477	101.04	413.4	134	101.70	100.25	120	152	109.70	—	99.82	91	151	
X	101.91	330	473	101.24	411.0	130	101.24	100.52	117	150	117.60	—	99.83	89	—	
XI	102.10	329	474	101.41	411.1	130	101.41	100.62	119	150	117.60	89.2	100.01	89	—	
XII	103.01	326	473	114.68	414.1	135	127.78	144.99	122	150	157.95	—	99.91	89	145	
1932 I	104.34	326	470	138.51	420.5	139	126.74	143.33	123	150	155.30	—	100.03	84	—	
II	101.61	323	470	145.23	422.0	139	131.62	142.77	123	150	154.18	87.5	99.62	83	—	
III	101.56	322	478	155.01	419.8	136	147.98	136.73	123	150	146.42	—	99.79	82	141	
IV	102.21	319	481	151.94	416.4	135	149.40	140.46	120	150	142.41	83.9	99.37	80	—	
V	102.21	313	474	155.90	413.6	134	164.76	145.00	120	149	145.00	—	99.43	79	—	
VI	102.87	304	472	164.59	410.6	132	185.32	148.37	120	149	146.43	—	99.39	78	141	
VII	103.18	300	465	181.61	411.6	132	179.74	151.93	122	149	150.13	82.1	99.84	76	—	
VIII	102.91	300	466	203.50	417.7	132	174.47	153.93	123	149	153.32	—	99.88	75	—	
IX	102.67	307	455	210.93	426.5	138	166.62	153.60	123	149	153.52	—	99.84	76	141	
X	102.89	304	462	216.43	427.8	140	160.25	156.03	123	149	156.91	81.1	100.05	77	—	
XI	102.95	302	465	241.72	434.4	142	154.70	160.24	124	148	162.70	—	100.07	76	—	
XII	103.02	299	468	240.46	439.5	146	155.81	158.70	123	148	162.53	—	100.07	76	140	
1933 I	102.84	96	—	240.35	439.8	148	165.26	155.42	122	147	166.78	—	100.04	75	—	
II	102.88	—	—	239.71	—	—	175.38	152.90	121	147	177.41	—	99.81	—	—	
III	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1934 IX	—	100.0	100.0	—	100.0	100.0	100.0	—	100.0	100.0	100.0	100.0	—	100.0	100.0	
X	—	99.2	99.2	—	98.4	97.0	91.3	—	101.7	100.0	100.3	100.0	—	97.8	—	
XI	—	99.7	99.4	—	98.2	97.0	85.4	—	101.7	100.0	101.0	100.1	—	97.8	—	
XII	—	98.3	99.2	—	100.9	100.7	85.6	—	104.3	100.0	100.8	—	—	93.4	96.0	
1932 I	—	98.8	98.5	—	106.5	103.7	84.9	—	105.1	100.0	101.0	—	—	92.3	—	
II	—	97.9	98.5	—	107.9	103.7	88.2	—	105.1	100.0	99.9	98.2	—	91.2	—	
III	—	97.6	100.2	—	103.9	101.5	99.2	—	104.3	100.0	99.5	—	—	90.1	93.4	
IV	—	96.7	100.8	—	102.9	100.7	100.1	—	102.6	100.0	98.8	—	—	87.9	—	
V	—	94.8	99.4	—	100.4	100.0	100.1	—	102.6	99.3	98.6	94.2	—	86.8	—	
VI	—	92.1	99.4	—	97.8	98.5	124.2	—	102.6	99.3	98.2	—	—	85.7	93.4	
VII	—	90.9	97.5	—	104.1	97.0	100.1	—	102.6	99.3	98.2	—	—	83.5	—	
VIII	—	90.9	95.6	—	104.1	98.5	116.9	—	105.1	99.3	98.2	92.1	—	82.4	—	
IX	—	93.0	95.4	—	111.8	103.0	111.7	—	105.1	99.3	98.4	—	—	83.5	93.4	
X	—	92.4	96.9	—	113.0	104.5	107.4	—	105.1	99.3	97.9	—	—	84.6	—	
XI	—	94.5	97.5	—	118.8	106.0	103.7	—	106.0	98.7	96.6	—	—	83.5	—	
XII	—	90.6	98.1	—	123.3	109.0	104.4	—	105.1	98.7	95.5	—	—	82.4	92.7	
1933 I	—	88.5	—	—	123.6	110.4	110.8	—	104.3	98.0	—	—	—	—	—	
II	—	—	—	—	—	—	117.5	—	103.4	—	—	—	—	—	—	
III	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	

BASE: SEPT. 1931 = 100.

INDICES DU COURS DU DOLLAR, DES PRIX DE GROS ET DU COÛT DE LA VIE DANS CERTAINS PAYS (suite).
INDICES OF THE DOLLAR EXCHANGE AND OF WHOLESALE PRICES AND COST OF LIVING IN VARIOUS COUNTRIES (continued).

Pays Country	PÉROU — PERU			POLOGNE — POLAND			PORTUGAL		ROUMANIE — ROUMANIA			SALVA- DOR	SIAM	SUÈDE — SWEDEN		
Indices de	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie		
	Cost of its cost at par	Wholesale prices	1913=100	Cost of its cost at par	Wholesale prices	1927=100	Cost of its cost at par	VL/1914 =100	Cost of its cost at par	Wholesale prices	1914=100	Cost of its cost at par	Cost of its cost at par	Wholesale prices	Cost of living VII/1914 =100	
1929 XII	121.66	182	166	100.13	92.0	100.4	101.97	2,337	100.17	3,985	—	102.50	99.44	100.15	134	167
1930 XII	132.02	173	156	100.06	76.2	93.8	98.66	2,213	100.62	3,760	—	100.65	102.29	99.88	117	161
1931 VI	100.24	179	160	100.17	73.2	88.4	100.01	1,939	100.55	2,325	3,033	101.42	102.42	99.98	110	—
VII	100.09	177	160	100.17	70.3	86.3	100.18	1,956	100.66	2,245	2,972	101.42	102.31	100.16	110	158
VIII	100.18	174	160	100.19	69.0	84.5	100.05	1,938	100.77	2,151	2,939	101.42	102.16	100.19	109	—
IX	100.29	174	155	100.18	67.0	84.2	100.02	1,943	100.77	2,093	2,884	101.42	100.33	102.73	107	—
X	102.30	170	153	100.20	66.3	82.8	112.65	1,943	100.49	2,069	2,850	103.95	100.00	115.94	108	158
XI	100.09	169	153	100.25	68.2	83.7	121.54	1,927	100.27	2,101	2,807	105.49	100.00	129.23	110	—
XII	100.16	169	153	100.25	66.4	83.3	136.96	1,936	100.38	1,965	2,776	113.38	100.00	143.24	111	—
1932 I	100.11	165	152	100.22	63.9	80.4	139.81	1,914	100.52	1,958	2,723	115.00	100.00	139.66	109	157
II	100.02	163	151	100.25	64.6	80.5	138.99	1,917	100.53	1,993	2,661	121.51	100.00	138.91	110	—
III	100.56	164	150	100.37	63.8	79.6	134.75	1,919	100.40	2,113	2,656	127.13	100.00	134.98	109	—
IV	100.22	163	150	100.30	65.3	82.1	130.89	1,951	100.37	2,102	2,597	133.76	100.00	140.39	109	157
V	105.54	164	150	100.33	66.1	84.2	132.98	1,927	100.20	2,014	2,574	136.17	100.29	143.13	109	—
VI	131.08	175	152	100.31	61.8	81.9	132.77	1,904	100.27	1,932	2,491	138.80	134.01	143.27	108	—
VII	128.43	176	153	100.26	60.4	78.4	137.22	1,918	100.17	1,881	2,419	131.81	137.68	147.09	108	156
VIII	131.91	174	152	100.37	60.2	77.2	140.09	1,920	100.07	1,923	2,350	126.49	138.88	150.15	108	—
IX	135.32	174	152	100.34	60.2	76.5	140.53	1,967	100.00	2,068	2,393	125.41	139.06	150.51	110	—
X	144.82	176	152	100.39	58.8	75.1	143.30	1,971	100.07	2,089	2,392	118.99	142.13	152.85	110	156
XI	155.97	178	151	100.37	58.5	74.6	146.04	2,080	100.12	2,133	2,415	122.01	147.38	153.74	109	—
XII	162.45	173	150	100.32	56.2	73.2	146.53	2,000	100.15	2,132	2,439	121.62	147.22	149.62	108	—
1933 I	160.58	172	147	100.28	56.4	72.6	145.70	1,962	100.17	—	—	126.01	143.60	146.49	106	154
II	—	—	145	100.22	—	—	142.65	—	100.40	—	—	133.01	141.05	146.71	106	—
III	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1931 IX	100.0	100.0	100.0	100.0	100.0	100.0	—	100.0	—	100.0	100.0	—	—	—	100.0	—
X	97.7	97.7	98.7	98.3	99.0	98.3	—	98.3	—	98.9	98.8	—	—	—	100.9	—
XI	97.1	97.1	98.7	99.4	101.8	99.4	—	99.2	—	100.4	97.3	—	—	—	102.8	—
XII	97.1	97.1	98.7	98.9	99.1	98.9	—	99.6	—	93.9	96.3	—	—	—	103.7	—
1932 I	94.8	94.8	98.1	95.4	95.4	95.5	—	98.5	—	93.5	94.4	—	—	—	101.9	99.4
II	97.4	97.4	97.4	96.4	96.4	95.6	—	98.7	—	95.2	92.3	—	—	—	102.8	—
III	96.8	96.8	96.8	95.2	95.2	94.5	—	98.8	—	101.0	92.1	—	—	—	101.9	—
IV	93.7	93.7	96.8	97.5	97.5	97.5	—	100.4	—	100.4	90.0	—	—	—	101.9	99.4
V	96.8	96.8	96.8	98.7	98.7	100.0	—	99.2	—	96.2	89.3	—	—	—	101.9	—
VI	98.1	98.1	98.1	97.3	97.3	97.3	—	98.0	—	92.3	86.4	—	—	—	100.9	—
VII	101.1	101.1	98.1	93.1	90.1	91.7	—	98.7	—	92.3	83.9	—	—	—	100.9	98.7
VIII	100.0	100.0	98.1	89.9	89.9	91.7	—	98.8	—	91.9	82.5	—	—	—	100.9	—
IX	100.0	100.0	98.1	89.9	89.9	90.9	—	101.2	—	98.8	83.0	—	—	—	102.8	98.7
X	101.1	101.1	98.1	87.8	89.2	89.2	—	101.4	—	101.9	82.9	—	—	—	101.9	—
XI	102.3	102.3	97.4	87.3	87.3	88.6	—	107.1	—	101.9	83.7	—	—	—	101.9	—
XII	99.4	99.4	96.8	83.9	83.9	86.9	—	102.9	—	101.9	84.6	—	—	—	100.9	—
1933 I	98.9	98.9	94.8	84.2	84.2	86.2	—	101.0	—	—	—	—	—	—	99.1	97.5
II	98.9	98.9	93.5	—	—	86.6	—	—	—	—	—	—	—	—	99.1	—
III	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

BASE: SEPT. 1931 = 100

INDICES DU COURS DU DOLLAR, DES PRIX DE GROS ET DU COÛT DE LA VIE DANS CERTAINS PAYS (suite).
INDICES OF THE DOLLAR EXCHANGE AND OF WHOLESALE PRICES AND COST OF LIVING IN VARIOUS COUNTRIES (continued).

Pays Country	SUISSE — SWITZERLAND			TCHÉCOSLOVAQUIE CZECHOSLOVAKIA			TURQUIE — TURKEY			URU- GUAY	VENE- ZUELA	YUGOSLAVIE — YUGOSLAVIA		
Indices de	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Prix de gros	Coût de la vie	Prix du \$ en % de son prix au pair	Coût de la vie
Indices of	Cost of \$ as % of its cost at par	Wholesale prices VII/1914 = 100	Cost of living VI/1914 = 100	Cost of \$ as % of its cost at par	Wholesale prices VII/1914 = 100	Cost of living VII/1914 = 100	Cost of \$ as % of its cost at par	Wholesale prices 1913-14=100 Constant- tinople	Cost of living Constant- tinople	Cost of \$ as % of its cost at par	Wholesale prices 1926 = 100	Cost of living VII/1914 = 100	Cost of \$ as % of its cost at par	Cost of living VII/1914 = 100
1929 XII	99.25	138.6	162	99.86	862	—	939.81	1,259	1,460	109.07	—	1,817	—	1,817
1930 XII	99.57	117.4	156	99.88	752	723	932.46	923	1,239	137.92	—	1,583	—	1,583
1931	99.48	110.4	150	100.03	766	730	930.09	—	1,209	176.69	—	1,546	—	1,546
VII	99.30	109.5	150	100.08	737	729	931.47	—	1,187	190.59	99.70	1,518	99.70	1,518
VIII	99.02	108.1	149	100.02	715	709	931.47	—	1,170	224.78	99.53	1,511	99.53	1,511
IX	98.90	106.3	149	100.03	715	715	929.70	—	1,176	266.69	99.77	1,539	99.77	1,539
X	98.44	106.4	148	100.03	713	708	925.01	—	1,183	296.37	99.31	1,505	99.31	1,505
XI	99.14	106.2	147	100.04	710	696	929.50	—	1,197	228.30	98.63	1,501	98.63	1,501
XII	99.04	103.1	145	100.01	699	695	929.31	—	1,198	240.12	98.97	1,487	98.97	1,487
1932	98.91	101.4	144	100.01	693	695	927.18	—	1,203	230.26	99.03	1,441	99.03	1,441
I	98.97	99.6	142	100.04	693	687	925.18	—	1,205	224.09	98.93	1,430	98.93	1,430
II	98.77	98.7	142	100.00	688	694	927.46	—	1,200	219.68	99.21	1,427	99.21	1,427
III	98.77	97.7	140	100.00	680	694	924.55	—	1,182	218.55	99.36	1,409	99.36	1,409
IV	99.27	97.7	139	99.93	665	706	924.04	—	1,181	217.54	99.26	1,383	99.26	1,383
V	98.66	95.6	138	99.96	670	709	927.28	—	1,196	219.07	101.01	1,369	101.01	1,369
VI	98.88	94.5	138	99.96	669	697	931.28	—	1,168	217.42	105.35	1,315	105.35	1,315
VII	99.11	93.6	137	100.14	685	686	931.87	—	1,163	218.00	104.19	1,324	104.19	1,324
VIII	99.19	95.0	137	100.13	681	696	930.89	—	1,163	218.82	104.82	1,367	104.82	1,367
IX	99.97	94.8	136	100.13	681	696	930.89	—	1,163	218.82	104.82	1,367	104.82	1,367
X	99.95	94.8	136	100.08	678	703	927.93	—	1,151	218.44	104.95	1,379	104.95	1,379
XI	100.25	94.2	135	100.03	677	710	930.24	—	1,159	218.44	104.95	1,379	104.95	1,379
XII	100.31	91.8	134	100.05	661	710	934.14	—	1,142	218.47	103.96	1,233	103.96	1,233
1933	100.06	91.3	133	100.05	659	708	933.65	—	1,094	218.46	129.93	1,265	129.93	1,265
I	99.61	—	—	99.99	—	—	929.20	—	1,089	218.49	68.4	—	68.4	—
II	—	—	—	—	—	—	—	—	—	—	—	—	—	—
III	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1931	—	100.0	100.0	—	100.0	100.0	100.0	—	100.0	—	100.0	100.0	—	100.0
IX	—	100.1	99.3	—	99.7	99.0	99.5	—	101.4	—	97.1	97.8	—	97.8
X	—	99.9	98.7	—	99.3	97.3	100.0	—	101.8	—	95.8	96.6	—	96.6
XI	—	97.0	97.3	—	97.8	97.2	100.0	—	101.9	—	93.9	—	—	—
XII	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1932	—	95.4	96.6	—	96.9	97.2	99.7	—	102.3	—	94.7	93.6	—	93.6
I	—	93.7	95.3	—	96.9	96.1	99.5	—	102.4	—	94.0	92.9	—	92.9
II	—	92.9	95.3	—	96.2	99.0	99.8	—	102.0	—	94.7	92.7	—	92.7
III	—	91.9	93.9	—	95.1	97.1	99.4	—	100.5	—	92.3	91.6	—	91.6
IV	—	89.9	93.0	—	93.0	98.7	99.4	—	100.4	—	91.3	88.9	—	88.9
V	—	88.9	92.6	—	93.7	99.2	99.7	—	101.7	—	90.6	89.0	—	89.0
VI	—	88.1	92.6	—	93.6	97.5	99.3	—	101.7	—	91.6	85.4	—	85.4
VII	—	89.4	91.9	—	95.8	95.9	100.2	—	97.2	—	90.6	86.0	—	86.0
VIII	—	89.2	91.3	—	95.2	97.2	100.0	—	96.3	—	87.4	88.8	—	88.8
IX	—	88.6	90.6	—	94.8	98.3	99.8	—	97.9	—	89.2	88.8	—	88.8
X	—	86.4	89.9	—	92.4	99.3	100.1	—	98.6	—	90.4	89.6	—	89.6
XI	—	—	—	—	—	—	100.5	—	97.1	—	90.5	83.4	—	83.4
XII	—	—	—	—	—	—	—	—	—	—	—	—	—	—
1933	—	85.9	89.3	—	92.2	99.0	100.4	—	98.0	—	94.4	82.2	—	82.2
I	—	—	—	—	—	—	99.9	—	92.6	—	95.5	—	—	—
II	—	—	—	—	—	—	—	—	—	—	—	—	—	—
III	—	—	—	—	—	—	—	—	—	—	—	—	—	—

BASE: SEPT. 1931 = 100

ANNEX 9.

FLUCTUATIONS IN PURCHASING POWER OF CURRENCIES OF DIFFERENT COUNTRIES. DOCUMENTATION AND GRAPHS ATTACHED TO THE GERMAN EXPERT'S RESERVATION. (See page 15.)

The following deductions are based on documentation furnished by the Reich Statistical Office (*Statistisches Reichsamt*) which covers a period of observation of six years. The year 1926 was taken as the starting-point because at that time monetary conditions in almost all States had been consolidated.

This documentation proves that, whether the currency of a country was intact, controlled or devaloured, there were considerable internal fluctuations in purchasing power in nearly all States, which were by no means similar.

The fluctuations in internal purchasing power from one year to another (average of the current year expressed as a percentage of the average of the preceding year) from 1927 to the present time were as follows:¹

(a) Index of wholesale prices:

1927	Belgium	+ 13.8 %
	Italy	— 19.6 %
	Maximum difference	33.3 %
1928	Yugoslavia	+ 2.9 %
	Italy	— 6.7 %
	Maximum difference	6.9 %
1929	U.S.S.R.	+ 4.0 %
	Czechoslovakia	— 6.2 %
	Maximum difference	10.2 %
1930	U.S.S.R.	+ 3.9 %
	Netherlands	— 17.6 %
	Maximum difference	21.5 %
1931	U.S.S.R.	+ 3.7 %
	Netherlands	— 17.1 %
	Maximum difference	20.8 %
1932	Japan	+ 3.4 %
	Netherlands	— 18.6 %
	Maximum difference	22.0 %

(b) Cost-of-living index:

1927	Belgium	+ 23.8 %
	Italy/Denmark	— 5.8 %
	Maximum difference	29.6 %
1928	Belgium	+ 3.6 %
	Spain.	— 6.3 %
	Maximum difference	9.9 %
1929	France	+ 7.1 %
	Sweden	— 1.7 %
	Maximum difference	8.8 %

¹ The figures taken as basis for the calculation of the percentages are contained in Appendix 1 which is not reproduced in the present document.

1930	France	+ 4.6 %
	Japan	— 14.8 %
	Maximum difference	19.4 %
1931	Spain	+ 4.8 %
	Japan	— 12.3 %
	Maximum difference	17.1 %
1932	Austria	+ 1.9 %
	Germany	— 11.0 %
	Maximum difference	12.9 %

(c) Average of the two indices:

1927	Belgium	+ 18.8 %
	Italy	— 12.7 %
	Maximum difference	31.5 %
1928	Germany	+ 2.3 %
	Italy	— 6.4 %
	Maximum difference	8.7 %
1929	Belgium	+ 3.5 %
	Czechoslovakia/Sweden	— 3.6 %
	Maximum difference	7.1 %
1930	Spain	+ 2.0 %
	Japan	— 16.1 %
	Maximum difference	18.1 %
1931	Spain	+ 3.0 %
	Japan	— 13.8 %
	Maximum difference	16.8 %
1932	Austria	+ 2.4 %
	Netherlands	— 12.7 %
	Maximum difference	15.1 %

When we consider the fluctuations that occurred during a period of four or six years—that is to say, from 1926 to 1930 and 1926 to 1932 respectively—taking the index level of the last year in relation to the index level for 1926, we obtain the following figures:¹

(a) Index of wholesale prices:

1926-1930		1926-1932	
U.S.S.R.	+ 1.1 %	Spain	— 3.9 %
Italy	— 37.2 %	Italy	— 52.5 %
Maximum difference . . .	38.3 %	Maximum difference . . .	48.6 %

(b) Cost-of-living index:

1926-1930		1926-1932	
Belgium	+ 39.7 %	Belgium	+ 12.5 %
Japan	— 22.1 %	Japan	— 31.3 %
Maximum difference . . .	61.8 %	Maximum difference . . .	43.8 %

¹ The figures taken as basis for the calculation of the percentages are contained in Appendix 2 which is not reproduced in the present document.

(c) Average of the two indices:

1926-1930		1926-1932	
Belgium	+ 19.8 %	Spain	— 1.9 %
Italy	— 24.8 %	Italy	— 38.1 %
Maximum difference . . .	44.6 %	Maximum difference . . .	36.2 %

As will be seen, therefore, the two methods yield different results that cannot in any event be regarded as inconsiderable. Consequently, the view that the influence of monetary fluctuations on the domestic price-level is counteracted by the fluctuations in prices on the world market cannot be generalised. Thus, for example, wholesale prices and the cost of living have been rising in Russia and Spain for some years in spite of the downward tendency of world prices. The same applies to Austria and Japan in 1932. In the past, the influence of price movements on the world market on changes in the internal purchasing power has varied according to the nature and extent of the international inter-connections of the various countries and the range of monetary fluctuations.

The difference in the movement of internal purchasing power in the various countries, as shown by the above statistics, is explained in the first place by the interdependence of the following factors:

- (1) The differences in currency and credit policy;
- (2) The different parts played by States in the world economic structure;
- (3) The differences in foreign commercial and Customs policy;
- (4) Quantitative differences in existing stocks;
- (5) Differences in the proportion of cartellised and non-cartellised goods within the national economic structure.

The Technical Committee has given sufficient consideration to currency fluctuations with regard to pound sterling countries and the sources from which they obtain raw materials. It was seen that the abandonment of the gold standard did not lead to a corresponding increase, in the United Kingdom and the Scandinavian countries, in the price of raw materials imported from abroad. Up to the present, however, sufficient attention has not been paid to the fact that currency depreciation in States requiring raw materials assumes an entirely different form when the depreciation in the latter countries is greater than in the countries supplying raw materials, for in these circumstances depreciation is not mutually counterbalanced. It seems rather that a fall in prices on the world market cannot in the long run prevent an increase in internal prices in the country requiring raw materials whose money has depreciated most. Japan and Spain are cases in point.

Further, up to the present, sufficient attention has not been paid, in examining our question, to the importance of the particular economic structure of a country, the nature and extent of its inter-connections in the world economic structure and the resultant Customs system.

In the past, all these factors have been responsible for changes in the internal purchasing power of the currency. When we consider the obscure situation of the world economic structure, the continuation of the policy of Customs isolation practised by the States, we cannot foresee what will be the subsequent effect of these factors.

GRAPHS ANNEXED TO THE MATERIAL IN SUPPORT OF THE GERMAN EXPERT'S RESERVATION (see page 115).

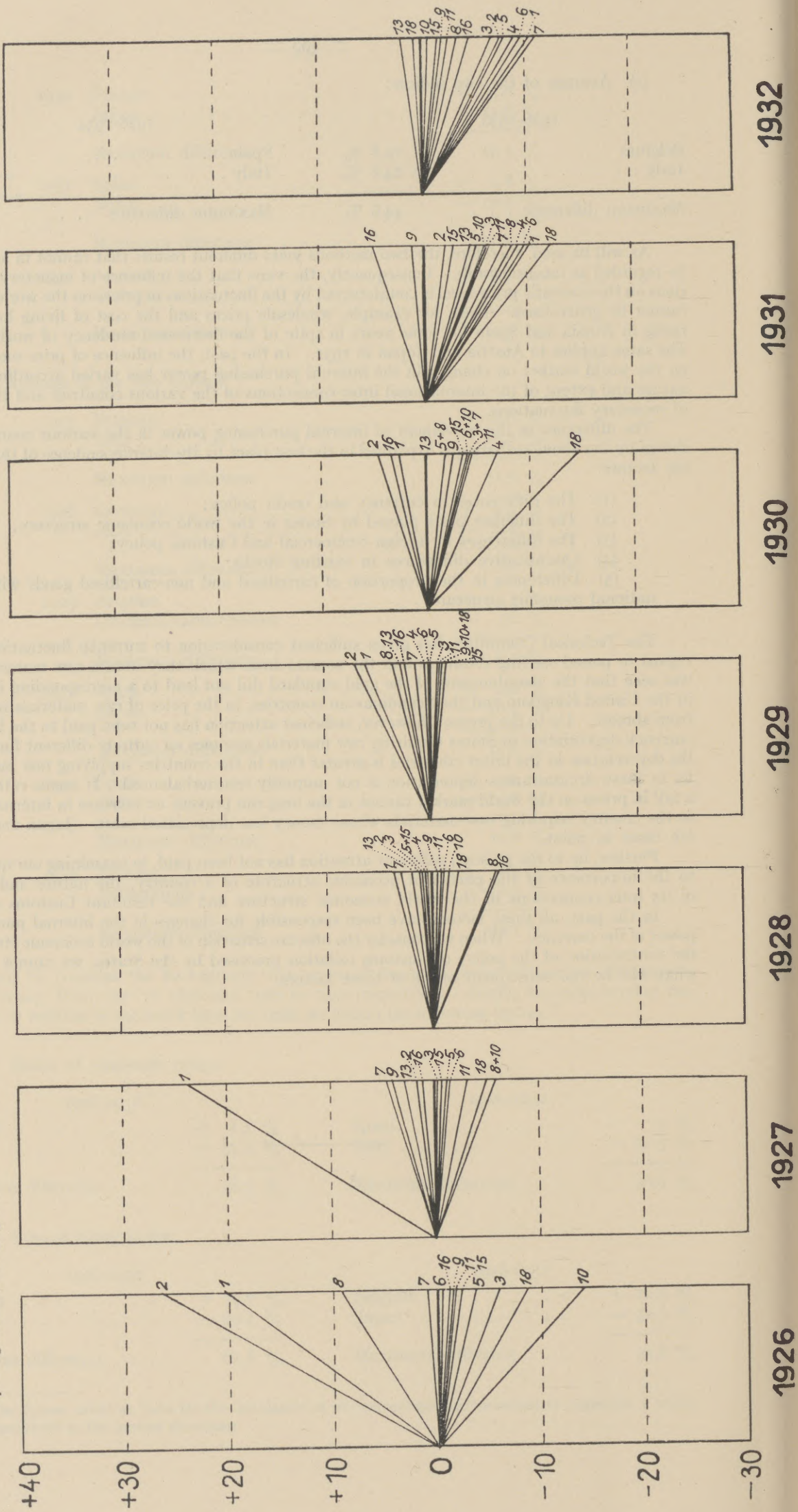
Table 1. — Cost-of-Living Index Figures.

Variations as compared with the previous year (+ or —).

Countries where the gold standard is intact: 1 Belgium, 2 France, 3 Netherlands, 4 Poland, 5 Switzerland, 6 United States of America.

Countries with controlled currencies or exchange rates, subject to only slight fluctuations: 7 Germany, 8 Italy, 9 Czechoslovakia.

Countries with depreciated currencies or internal currencies: 10 Denmark, 11 United Kingdom, 12 Yugoslavia, 13 Austria, 14 Russia, 15 U.S.S.R., Sweden, 16 Spain 17 Argentine, 18 Japan.



Variations as compared with the previous year (+ or -).

Countries with controlled currencies or exchange rates, subject to only slight fluctuations: 7 Germany, 8 Italy, 9 Czechoslovakia.

17 Argentina, 18 Japan.

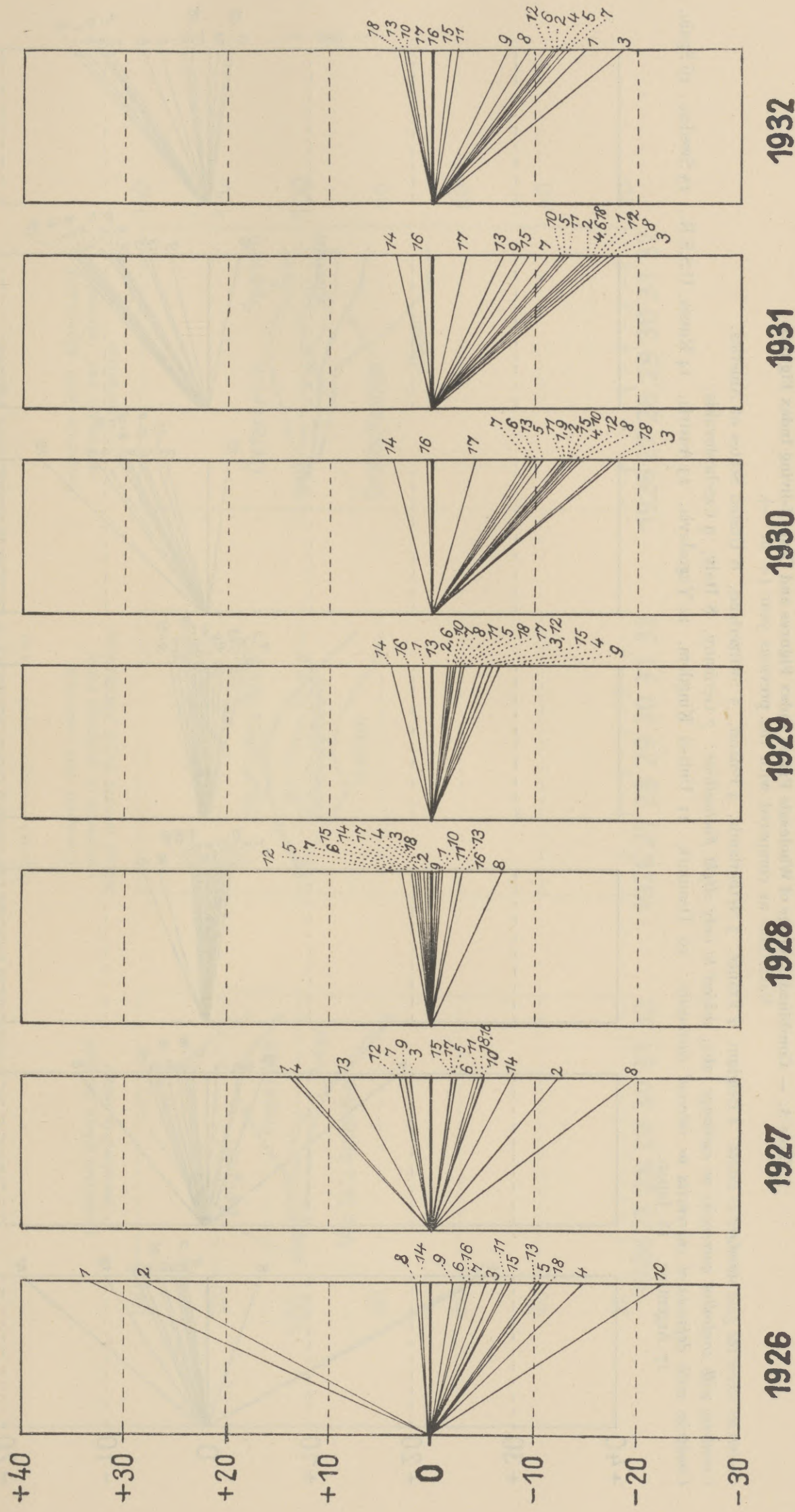


Table 3. — Combined Average of Wholesale Prices Index Figures and Cost-of-living Index Figures.
 Variations as compared with the previous year (+ or —).

Countries where the gold standard is intact: 1 Belgium, 2 France, 3 Netherlands, 4 Poland, 5 Switzerland, 6 United States of America.
 Countries with controlled currencies or exchange rates, subject to only slight fluctuations: 7 Germany, 8 Italy, 9 Czechoslovakia.
 Countries with depreciated currencies or internal currencies: 10 Denmark, 11 United Kingdom, 12 Yugoslavia, 13 Austria, 14 Russia, U.S.S.R., 15 Sweden, 16 Spain, 17 Argentine, 18 Japan.

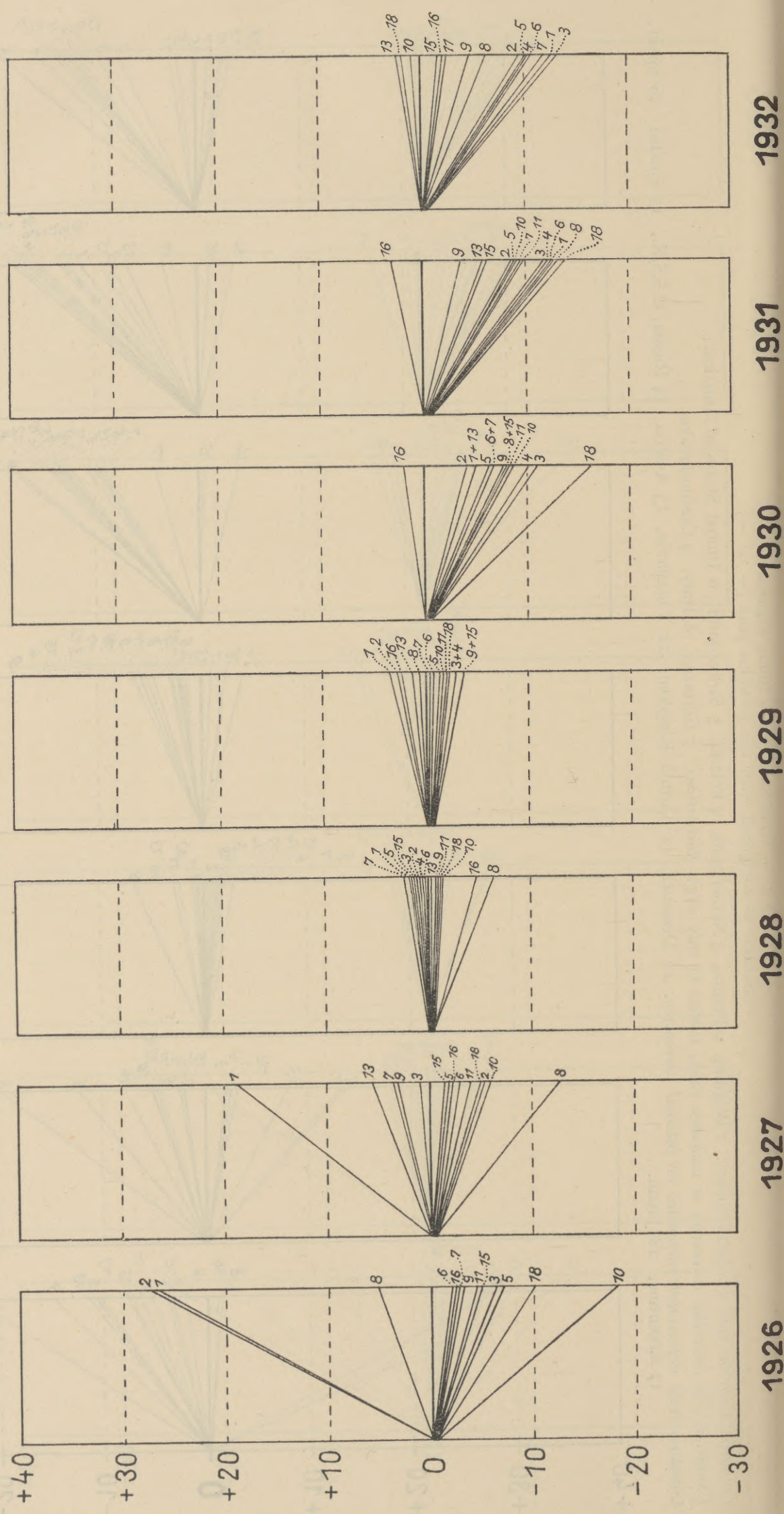


Table 4. — Variations in Internal Purchasing Power according to the Cost-of-living Index Figures.

Annual averages, 1926 = 100.

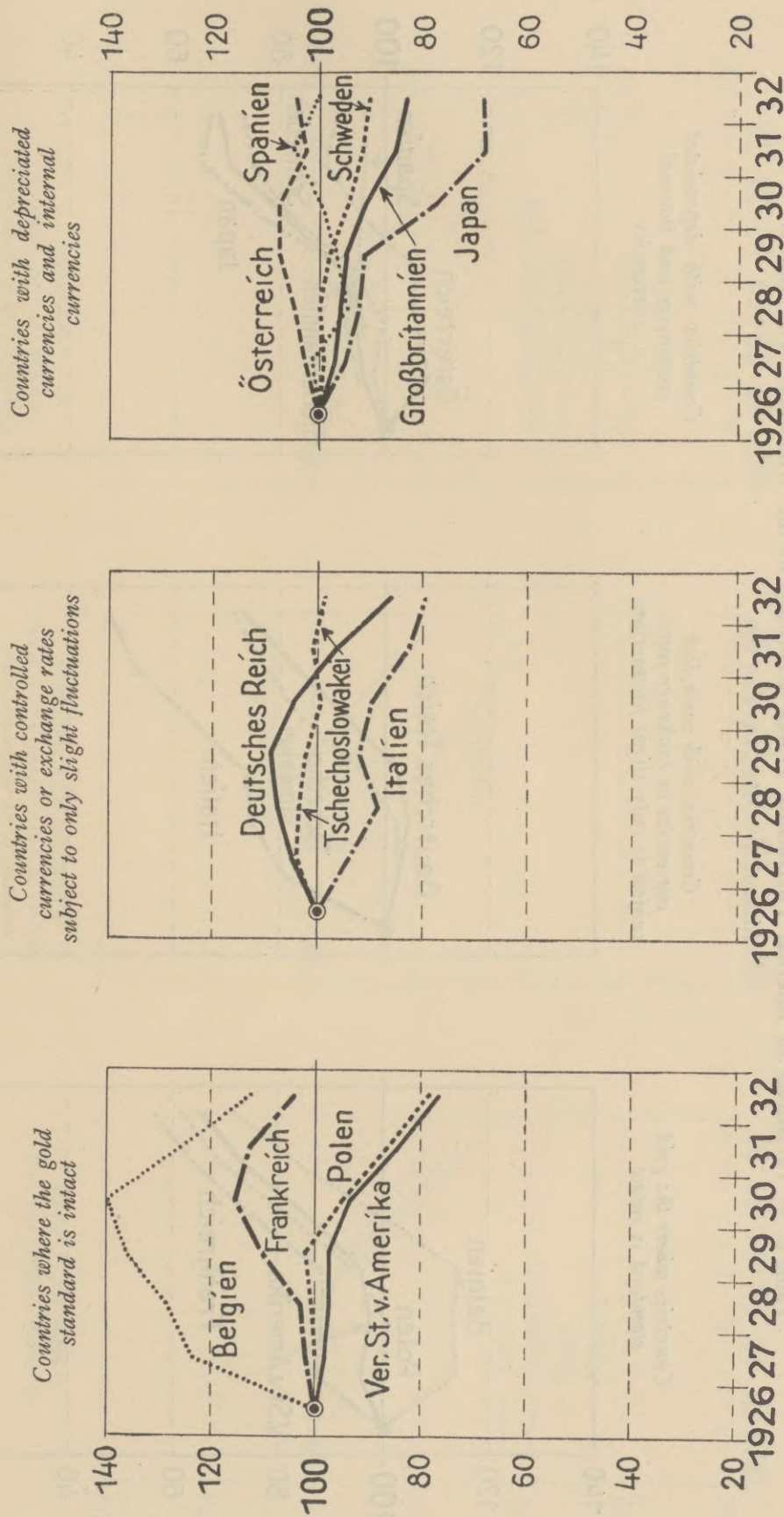


Table 5. — Variations in Internal Purchasing Power according to the Wholesale Price Index.
Annual averages, 1926 = 100.

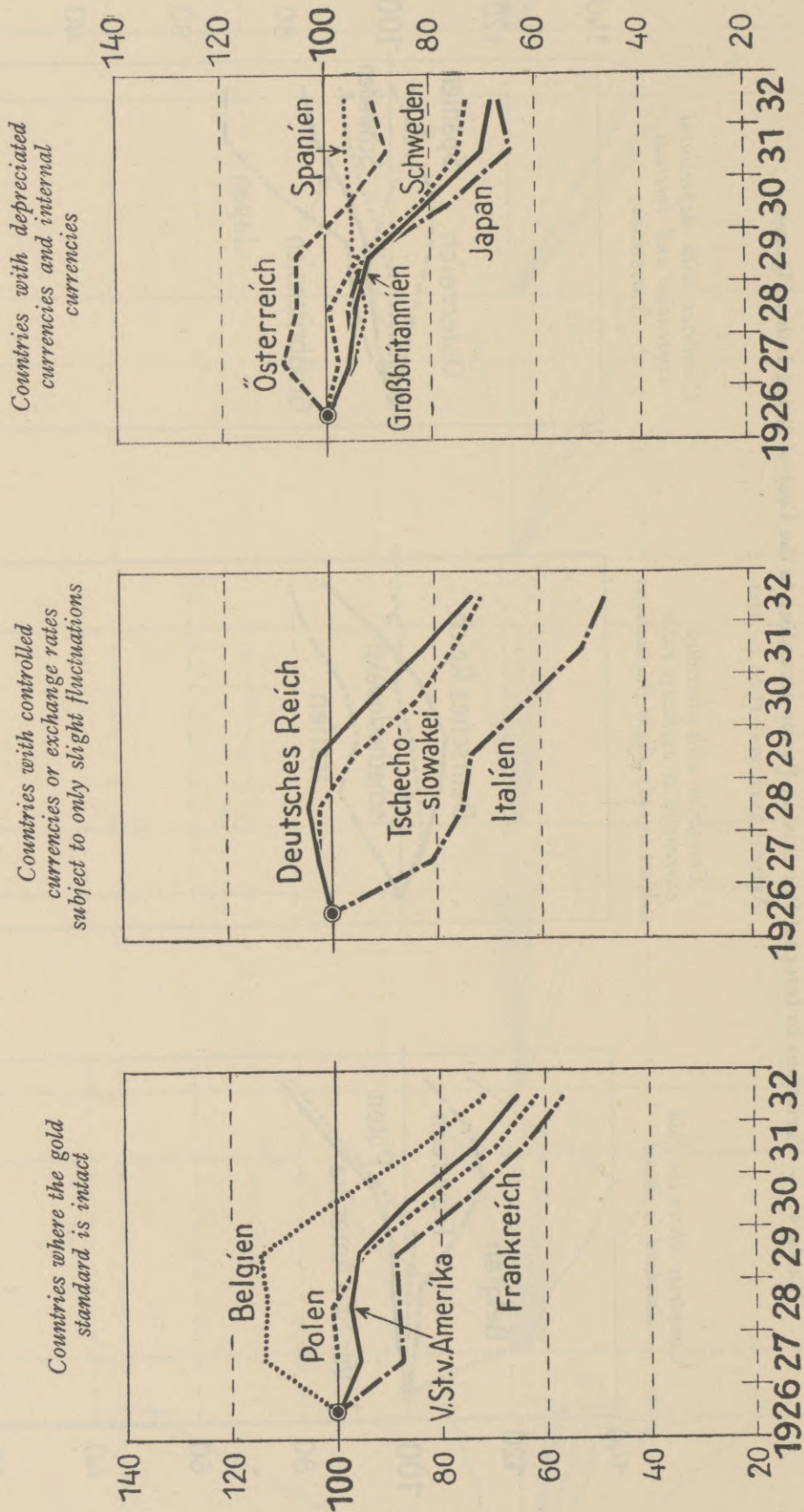
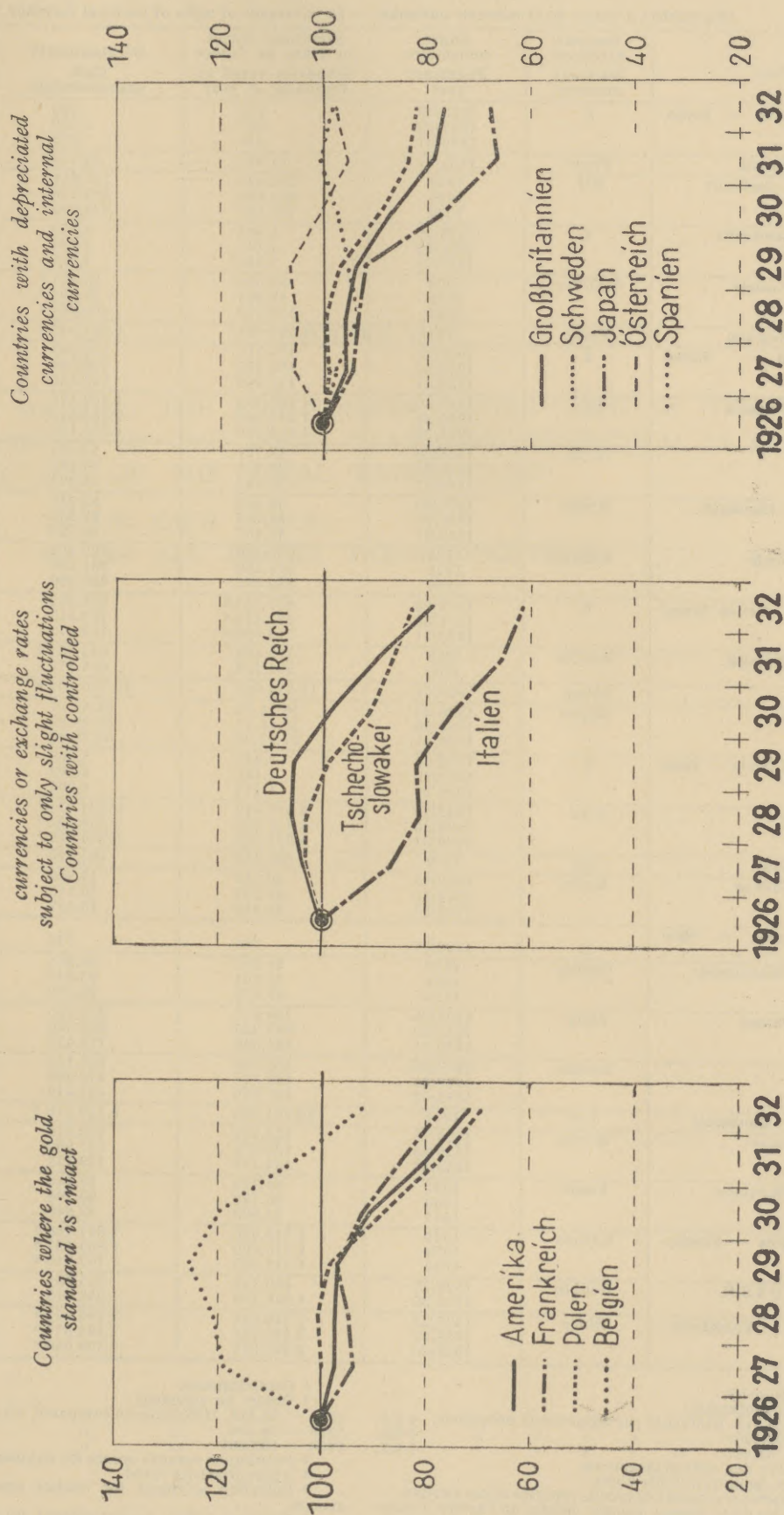


Table 6.

Variations in Internal Purchasing Power according to the Combined Average of the Wholesale Price Index and Cost-of-living Index Figure.
Annual averages, 1926 = 100.



(En milliers d'unités de la monnaie nationale — In thousands of units of national currency.)

	1	Commitments.	
	2	Orders for payment:	
1928	—	98,313. Difference as compared with estimates.	+ 5.6.
1929	—	99,490. " " "	+ 0.6.
1930	—	108,061. " " "	+ 4.3.
	3	Position as regards orders for payment.	"
	4	Appropriations voted.	"
	5	Including accounts for credits carried over and for arrears.	"
	6	Ministry of War, special account for the Rhineland Army of Occupation, Ministries of Marine, the Air and the Colonies.	"
		Position as regards payments.	"
	7	Ministries of War, Marine and Aviation.	Commitments:
1928/29	—	4,855,640. Difference as compared with estimates.	+ 7.7.
1929/30	—	4,984,798. " " "	+ 7.2.
1930/31	—	5,599,713. " " "	+ 10.4.
	8	Orders for payment:	
1928	—	1,797,994. Difference as compared with estimates.	+ 4.8.
1929	—	1,776,434. " " "	+ 3.6.
1930	—	1,726,346. " " "	+ 0.7.
	9	Not including arrears account.	"

ANNEX 11.

TABLES SHOWING THE EXPENDITURE UNDER EACH OF THE MAIN HEADINGS OF THE MODEL STATEMENT EXPRESSED AS A PERCENTAGE OF THE TOTAL EXPENDITURE:

- (i) ON EACH FORCE;
 - (ii) ON ALL FORCES TAKEN TOGETHER.
-

TABLEAUX INDICANT LES DÉPENSES QUI FIGURENT A CHACUN DES PRINCIPAUX TITRES DU RELEVÉ-TYPE, EXPRIMÉES EN POURCENTAGE DES DÉPENSES TOTALES:

(i) POUR CHACUNE DES FORCES;
(ii) POUR TOUTES LES FORCES PRISES ENSEMBLE.

TABLES SHOWING THE EXPENDITURE UNDER EACH OF THE MAIN HEADINGS OF THE MODEL STATEMENT EXPRESSED AS A PERCENTAGE OF THE TOTAL EXPENDITURE:

(i) ON EACH FORCE;
(ii) ON ALL FORCES TAKEN TOGETHER.

	Afrique du Sud	Albanie	Allemagne	Australie	Autriche	Belgique	Royaume-Uni	Bulgarie	Canada	Danemark	Espagne	Etats-Unis	Finlande	France	Inde	
TERRE:																
I. Personnel { A-D	{ 58,2	{ 49,4	{ 47,5	{ 55,4	{ 61,5	{ 50,7	{ 56,0	{ 44,6	{ 61,8	{ 40,4	{ 41,5	{ 52,5	{ 39,9	{ 43,2	{ 57,1	LAND: I. Effectives { A-D II. Transport. { E III. Buildings. IV. War Material. Total.
II. Mouvements	{ 13,7	{ 27,7	{ 7,6	{ 8,9	{ 42,2	{ 40,9	{ 13,8	{ 39,5	{ 6,4	{ 20,6	{ 28,8	{ 13,6	{ 23,2	{ 20,4	{ 12,5	
III. Immeubles	{ 7,0	{ 8,6	{ 8,4	{ 5,3	{ 3,9	{ 14,0	{ 6,8	{ 10,5	{ 2,4	{ 7,8	{ 15,0	{ 7,8	{ 5,7	{ 9,5	{ 11,4	
IV. Matériel de guerre.	{ 10,3	{ 7,6	{ 13,1	{ 6,7	{ 8,4	{ 7,3	{ 13,0	{ 1,1	{ 10,4	{ 9,8	{ 7,7	{ 9,9	{ 15,3	{ 9,8	{ 11,2	
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
MER:																
I. Personnel { A-D	{ 63,1	{ 41,2	{ 28,6	{ 54,7	—	—	{ 40,0	—	{ 32,0	{ 41,7	{ 28,9	{ 36,3	{ 20,1	{ 15,6	{ 24,2	SEA: I. Effectives { A-D II. Transport. { E III. Buildings. IV. War Material. Total.
II. Mouvements	{ 9,0	{ 42,0	{ 6,6	{ 6,7	—	—	{ 4,4	—	{ 7,8	{ 9,4	{ 8,6	{ 12,1	{ 11,8	{ 8,0	{ 7,7	
III. Immeubles	{ 4,6	{ 6,7	{ 9,3	{ 4,9	—	—	{ 5,4	—	{ 2,7	{ 8,7	{ 7,5	{ 4,1	{ 2,8	{ 6,0	{ 18,8	
IV. Matériel de guerre.	{ 10,4	{ 4,2	{ 7,9	{ 4,0	—	—	{ 3,2	—	{ 3,4	{ 4,5	{ 2,5	{ 2,1	{ 9,5	{ 7,3	{ 6,3	
Total	100	100	100	100	—	—	100	—	100	100	100	100	100	100	100	
AIR:																
I. Personnel { A-D	{ 70,1	—	—	{ 55,2	—	{ 25,8	{ 32,1	—	{ 51,3	{ 23,9	{ 17,8	{ 28,7	{ 28,6	{ 19,2	{ 35,3	AIR: I. Effectives { A-D II. Transport. { E III. Buildings. IV. War Material. Total.
II. Mouvements	{ 6,4	—	—	{ 3,8	—	{ 3,9	{ 5,8	—	{ 4,6	{ 5,4	{ 12,0	{ 6,2	{ 16,3	{ 5,0	{ 4,5	
III. Immeubles	{ 7,8	—	—	{ 5,5	—	{ 2,8	{ 5,8	—	{ 4,2	{ 6,7	{ 9,5	{ 6,1	{ 6,3	{ 5,3	{ 8,1	
IV. Matériel de guerre.	{ 2,5	—	—	{ 9,4	—	{ 4,9	{ 14,5	—	{ 18,7	{ 6,3	{ 12,2	{ 5,5	{ 14,4	{ 9,1	{ 8,2	
Total	100	—	—	100	—	100	100	—	100	100	100	100	100	100	100	
DÉPENSES POUR L'ENSEMBLE DES TROIS FORCES:																
I. Personnel { A-D	{ 60,9	{ 49,3	{ 42,5	{ 55,0	{ 61,5	{ 48,2	{ 44,0	{ 44,6	{ 54,1	{ 39,8	{ 37,0	{ 41,8	{ 32,7	{ 33,6	{ 55,6	TOTAL EXPENDITURE FOR THE THREE FORCES: I. Effectives { A-D II. Transport. { E III. Buildings. IV. War Material. Total.
II. Mouvements	{ 11,8	{ 27,8	{ 7,3	{ 7,1	{ 42,2	{ 40,2	{ 8,0	{ 39,5	{ 6,2	{ 16,4	{ 23,2	{ 11,9	{ 19,0	{ 15,4	{ 12,1	
III. Immeubles	{ 6,7	{ 8,6	{ 8,4	{ 5,1	{ 3,9	{ 12,9	{ 5,9	{ 10,5	{ 2,7	{ 8,0	{ 12,9	{ 5,8	{ 13,5	{ 8,2	{ 11,3	
IV. Matériel de guerre.	{ 9,4	{ 7,5	{ 11,7	{ 5,5	{ 8,4	{ 6,8	{ 9,1	{ 1,1	{ 15,9	{ 7,9	{ 6,9	{ 5,7	{ 29,8	{ 9,1	{ 11,0	
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	

	Etat libre d'Irlande	Irish Free State	Italie	Japon	Norvège	Nouvelle-Zélande	Pays-Bas	Pologne	Portugal	Roumanie	Suède	Suisse	Tchécoslovaquie	U.R.S.S.	Yugoslavie	
TERRE:																
I. Personnel { A-D	{ 69,0	{ 45,2	{ 32,8	{ 56,4	{ 72,4	{ 52,0	{ 38,0	{ 57,2	{ 52,4	{ 45,4	{ 29,5	{ 34,5	{ 19,0	{ 22,9		LAND:
II. Mouvements { E	{ 13,4	{ 20,0	{ 27,0	{ 17,4	{ 6,7	{ 18,4	{ 20,4	{ 26,6	{ 29,8	{ 24,7	{ 31,4	{ 25,4	{ 34,8	{ 33,9		I. Effectives { A-D
III. Immeubles	2,7	8,3	8,2	6,6	7,1	9,5	7,3	6,7	5,1	10,0	14,4	10,9	11,4	8,0		II. Transport. { E
IV. Matériel de guerre	8,7	10,4	9,5	4,7	4,5	7,6	5,9	3,2	2,4	8,0	3,9	8,7	20,2	10,4		III. Buildings.
	6,5	16,4	22,5	15,2	9,3	12,5	28,4	6,3	10,3	10,9	20,8	20,5	14,6	24,8		IV. War Material.
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	Total.
MER:																
I. Personnel { A-D	—	{ 21,9	{ 17,7	{ 43,5	{ 39,1	{ 32,8	{ 19,7	{ 33,3	{ 46,0	{ 29,6	—	—	{ 19,1	{ 12,6		SEA:
II. Mouvements { E	—	{ 7,7	{ 9,6	{ 3,0	{ 9,5	{ 6,7	{ 10,2	{ 20,4	{ 13,5	{ 16,6	—	—	{ 20,4	{ 19,8		I. Effectives { A-D
III. Immeubles	—	3,0	9,7	8,0	9,4	9,0	9,5	5,7	1,7	4,1	—	—	13,4	14,4		II. Transport.
IV. Matériel de guerre	—	5,4	3,6	12,0	1,9	3,9	10,6	8,1	0,3	2,1	—	—	25,4	7,8		III. Buildings.
	—	62,0	59,4	33,5	40,1	47,6	50,0	32,8	38,5	47,6	—	—	22,0	45,4		IV. War Material.
Total	—	100	100	100	100	100	100	100	100	100	100	100	100	100	100	Total.
AIR:																
I. Personnel { A-D	{ 37,0	{ 18,3	{ 10,8	{ 28,6	{ 31,7	{ 26,1	{ 17,2	{ 38,9	{ 27,6	{ 19,6	{ 36,4	{ 12,2	{ 21,0	{ 10,8		AIR:
II. Mouvements { E	{ 7,6	{ 8,0	{ 7,9	{ 8,4	{ 2,7	{ 2,5	{ 6,1	{ 15,0	{ 6,8	{ 12,2	{ 5,3	{ 8,3	{ 17,8	{ 5,8		I. Effectives { A-D
III. Immeubles	2,3	5,1	6,2	7,6	7,4	5,2	3,2	7,6	1,9	5,4	7,3	5,8	10,6	10,7		II. Transport.
IV. Matériel de guerre	18,8	22,1	6,0	3,1	24,7	10,2	13,6	9,6	0,4	5,6	2,9	10,3	18,3	15,3		III. Buildings.
	34,3	46,5	69,1	52,3	33,5	56,0	59,9	28,9	63,3	57,2	48,1	63,4	32,3	57,4		IV. War Material.
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	Total.
DÉPENSES POUR L'ENSEMBLE DES TROIS FORCES:																
I. Personnel { A-D	{ 67,4	{ 35,8	{ 23,0	{ 50,3	{ 49,7	{ 45,8	{ 35,6	{ 50,4	{ 49,9	{ 38,0	{ 30,0	{ 31,7	{ 19,2	{ 20,5		TOTAL EXPENDITURE FOR THE THREE FORCES:
II. Mouvements { E	{ 12,8	{ 15,3	{ 16,4	{ 11,7	{ 8,0	{ 14,6	{ 18,9	{ 24,5	{ 27,2	{ 21,5	{ 29,8	{ 23,3	{ 31,3	{ 29,3		I. Effectives { A-D
III. Immeubles	2,7	6,6	8,7	7,2	8,5	9,1	7,0	6,5	4,7	7,6	14,0	10,2	11,5	9,0		II. Transport.
IV. Matériel de guerre	9,3	10,9	6,2	7,1	4,5	6,9	6,7	4,7	2,1	5,7	3,8	8,9	20,6	10,7		III. Buildings.
	8,1	31,4	45,7	23,7	29,3	23,6	31,8	13,9	16,1	27,2	22,4	25,9	17,4	30,5		IV. War Material.
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	Total.

Notes explicatives:

(1) Ce tableau a été établi sur la base des chiffres insérés dans les Tableaux récapitulatifs des relevés-types qui figurent à la fin du Volume II du présent rapport. Dans la note explicative qui accompagne ces tableaux on a fait connaître que les chiffres inscrits sont, à une ou deux exceptions près, les chiffres originaux présentés par les divers Etats, aucune révision de ces chiffres n'ayant été entreprise jusqu'à maintenant à la suite de l'examen des relevés-types par le Comité technique.

(2) Le présent tableau doit être utilisé avec la plus grande circonspection: il se borne à reproduire les chiffres qui sont indiqués dans les relevés-types, dont aucune déduction ne peut être tirée indépendamment de leur contexte et à défaut d'explications; en particulier, il faut observer que, pour diverses raisons, chaque Etat ne calcule pas nécessairement tous les chiffres exactement sur les mêmes bases. Les « Recueils synthétiques » insérés au volume II du présent rapport indiquent certaines différences entre les méthodes suivies pour remplir les titres du relevé-type.

Le Comité appelle également l'attention sur les observations présentées au chapitre XXI au sujet de l'impossibilité de comparer les dépenses de défense nationale d'un pays à celles d'un autre pays.

Explanatory Notes:

(1) This table has been prepared on the basis of the figures inserted in the Recapitulatory Tables of the Model Statements which are published at the end of Volume II of the present report. In the explanatory note to those tables, it is stated that the figures given are, with one or two exceptions, those originally submitted by the various States, no revision having so far been undertaken after the examination of the Model Statements by the Technical Committee.

(2) The greatest care must be used in making any use of this table; it is simply a re-statement of figures given in the Model Statements; no deductions can be drawn from these figures apart from their proper context and without explanations; in particular, it must be observed that, for various reasons, all the figures are not necessarily explained by each State on exactly the same basis. Certain variations in method of filling in the heads of the Model Statement are indicated in the "Summary of Information" in Volume II of this report.

The Committee also call attention to their remarks in Chapter XXI on the impossibility of comparing the defence expenditure of one country with that of another.

Table II.
WHOLESALE PRICES OF CERTAIN COMMODITIES.¹

Country	Quality	National currency	Original quotation .		Price per common unit		Equivalent in dollars according to the average rates in:	
			Unit	Price	Unit	Price	November 1932	January 1933
Wheat (January 20th, 1933):								
Belgium	National grown, Anvers	Francs	100 kg.	77.00	Bushel	20.06	0.58	
United Kingdom	National grown, London	s. d.	504 livr.	22s. 9d.		2s. 8½d.	0.45	
France	National grown (75-77 kg. hl.). Paris	Francs	100 kg.	107.85		29.35	1.14	
Germany	National grown, Berlin	RM.	100 »	18.50		5.03	1.20	
Italy	National grown, soft, Milan.	Lire	100 »	112.00		30.48	1.56	
U.S.A.	Hard winter No. 2, Chicago	Cents	Bushel	47.75		47.75	0.48	
Coal (November 1932):								
Belgium	Tout venant, 35%	Francs	Ton	140.00	Met. ton	140.00	3.88	
United Kingdom	Northumberland, unscreened Newcastle, f.o.b.	s. d.	Long ton	12s. 4d.		12s. 17½d.	1.99	
France	Tout venant, gras, Nord	Francs	Ton	113.00		113.00	4.43	
Germany	Fettförderkohle, rheinischwestfälische.	RM.	»	14.21		14.21	3.37	
Italy	Carbone di vapore, Cardiff primario, Milano	Lire	»	140.00		140.00	7.16	
U.S.A.	Bituminous on tracks (composite price) mine run.	Dollars	Short ton	3.613		3.98	(2.04)	
Motor spirit (November 1932):								
Belgium	Essence à moteur en vrac, Anvers	Francs	100 litres	237.00	100 litres	237.00	6.57	
United Kingdom	Motor spirit in bulk, commercial Engl., Wales	£ s. d.	Gallon	1s. 4½d.		£1 16s. 4d.	5.95	
France	Tourisme, Paris	Francs	100 kg.	173.00		126.47	4.96	
Germany	Benzin, in Kesselwagen, Berlin.	RM.	100 litres	28.80		28.80	6.84	
Italy	Benzina per autoveicoli, franco Milano	Lire	100 kg.	251.25		183.67	9.39	
U.S.A.	Gasoline, refinery, Oklahoma	Dollars	Gallon	0.047		1.24	1.24	
Foundry pig-iron (November 1932):								
Belgium	Fonte de moulage, Charleroi	Francs	Ton	295.00	Met. ton	295.00	8.18	
United Kingdom	Cleveland No. 3, London	s. d.	Long ton	58s. 6d.		57s. 7d.	9.43	
France	3 P.L., Est	Francs	Ton	207.50		207.50	8.13	
Germany	Eisen, Giess. III. Bas. Oberhausen	RM.	»	63.00		63.00	14.96	
Italy	" Middlesbro " , No. 3, franco vagone, Milano	Lire	»	385.00		385.00	19.68	
U.S.A.	East Pennsylvania, No. 2 x., foundry pig-iron, Philadelphia	Dollars	Long ton	14.09		13.87	13.87	
Steel (November 1932):								
Belgium	Blooms, national price	Francs	Ton	450.00	Met. ton	450.00	12.48	
United Kingdom	Billets, soft, London	£ s. d.	Long ton	£4 17s. 6d.		£4 15s. 11½d.	15.71	
France	Blooms, Thomas, Est	Francs	Ton	340.00		340.00	13.32	
Germany	Knüppel, Bas. Dortmund	RM.	»	96.45		96.45	22.91	
Italy	Billetes, 40L1.30, pr. base franco vagone, Milano	Lire	»	745.00		745.00	38.08	
U.S.A.	Bessemer, steel billets, Pittsburg	Dollars	Long ton	26.00		25.59	25.59	

¹ Supplied by the Financial Section and Economic Intelligence Service of the Secretariat.
NOTE. — The wholesale prices of certain commodities shown in this Table refer to such quotations as are currently published in each of the countries covered by the table. In no case do these national quotations relate to identical qualities within the commodity groups selected. The lack of homogeneity as between the price quotations available is particularly marked in the case of iron, steel and coal. Further discrepancies arise from the fact that the prices as quoted may in some cases include and in others exclude transport charges, and from the fact that effective prices are often different from the base prices quoted and export prices different from those relating to the home market. It is therefore obvious that the prices shown in the table are not strictly comparable from country to country.

ANNEX 12.
MISCELLANEOUS STATISTICAL INFORMATION GIVEN AS ANNEX TO CHAPTER XXI (THE EXPENDITURE ON ARMAMENTS
OF THE VARIOUS COUNTRIES DOES NOT PROVIDE A CRITERION FOR COMPARING THEIR ARMAMENTS).

Table I.
TOTAL ANNUAL PAY.¹

Country	National currency	1. INFANTRY N.C.O.s		2. INFANTRY OFFICERS							
		Infantry N.C.O.s of the lowest rank that can be held after five years' service, married, no children (Annual pay after five years' service)		Officers of the lowest rank (2nd lieutenant, lieutenant), unmarried (at date of appointment)		Captain, married, no children (at date of promotion)		Colonel, married, no children (at date of promotion)		General of Division, married, no children (at date of promotion)	
		In national currency	In dollars (average rate January 1933)	In national currency	Dollars (average rate January 1933)	National currency	Dollars (average rate January 1933)	National currency	Dollars (average rate January 1933)	National currency	Dollars (average rate January 1933)
Brazil	Milreis	2nd-class ser- geants 3: 960\$000	302.54	6: 000\$000	458.40	12: 000\$000	916.80	24: 000\$000	1,833.60	36: 000\$000	2,750.40
		Lance-corporal £59 6s. 3d. ²	199.37	260.—	873.96	532.—	1,788.26	1,443.—	4,850.50	Major-Gen. 2,085.—	7,008.52
		Corporal £73 ²	245.38							Lieut.-Gen. 2,824.—	9,492.59
United Kingdom	£	Sergeant £109 10s.	368.07							General 3,644.—	12,248.94
		13,629.60	531.96	2nd Lt. 16,308 Lieut. 20,340	636.50 793.87	31,687.20	1,236.75	66,132.—	2,581.13	111,376.50	4,347.04
		Sergeant 6,280 Sergeant- Major 7,544	321.41 386.10	11,880.—	608.02	22,000.—	1,125.96	33,880.—	1,733.98	56,320.—	2,882.46
Italy	Lire									77,000.—	3,940.86
		Sergeant 162	33.60	2nd Lt. 850 Lieut. 2nd class 1,020	176.29 211.55	Captain 3rd class 1,470.—	304.88	4,350.— ³	902.19	6,000.— ⁴	1,244.40
		Corporal 2,571	287.69	4,197.—	469.64	7,147.—	799.75	12,937.—	1,447.65	17,250.—	1,930.28
Japan	Yen		666.12	3,396.—	621.13	7,992.—	1,461.74	Lt.-Colonel commanding a regiment 11,500.— Colonel 13,300.—	2,578.89	Colonel commanding division 17,600.—	3,393.28
		3,642									
Poland	Zloty										
Sweden	Crowns										
Switzerland (Figures for instruc- tors, who are very few in number; militia offi- cers and N.C.O.s do not receive permanent remuneration)	Swiss francs	Sergeant- major 5,330	1,027.62	5,700.—	1,098.96	7,500.—	1,446.—				

¹ The information has been supplied by the Members of the Committee; the conversion into dollars has been effected by the Secretariat.

² Plus proficiency pay.

³ A colonel not commanding a regiment receives Y 4,150 annual pay.

⁴ A general of division not in command of a division receives Y 5,800 annual pay.

REMARKS REGARDING TABLE III.

The attached data are taken from information recently obtained by the International Labour Office by means of enquiries from the statistical services of the different countries. Attention should, however, be drawn to the fact that the nature of these figures differs somewhat from one country to another and in certain cases from one occupation to another in the same country. Sometimes they refer to actual earnings, sometimes to so-called typical wage rates and sometimes to minimum wages. It is well known what a wide difference there is between these three notions and how wide is the gap, for example, between the figures expressing the minimum rate and the actual earnings. It should further be remarked that, under the apparent uniformity of a one and the same description, are concealed differences of fact, for the notion of typical or minimum wage rates is by no means the same everywhere. The data therefore only represent the reality to an extent differing from one case to another, and this precludes any possibility of an accurate comparison.

Moreover, in addition to these imperfections, there are certain factors which the wage statistics are unable to take into consideration, but which nevertheless play an important part in the final cost of labour. This is the case in particular as regards the different social charges—namely, family allowances, paid holidays, employers' contributions to social insurance and welfare institutions.

Lastly, the selection of a single town for each country considerably restricts the scope of comparison, for the differences between one town and another in the same country may in certain cases be as great as between towns of different countries.

Table IV.

UNITED STATES.

(a) AVERAGE EARNINGS OF FITTERS AND LABOURERS IN MACHINE SHOPS DURING A REPRESENTATIVE WAGE PERIOD BETWEEN JUNE AND AUGUST 1931 IN THE STATE OF ILLINOIS AND IN THE WHOLE COUNTRY.

	Number of workers covered	Average earnings per hour	Calculated for a 48-hour week
State of Illinois:			
Fitters and bench hands	307	\$0.659	\$31.63
Labourers.	607	\$0.474	\$22.75
Whole country:			
Fitters	5,528	\$0.666	\$31.97
Labourers.	5,173	\$0.455	\$21.84

(b) MOVEMENT OF AVERAGE EARNINGS OF ALL WORKERS IN MACHINES AND MACHINE TOOLS FROM 1931 TO 1932.

	Average earnings					
	Per hour			Calculated for a 48-hour week		
	July 1931	October 1931	October 1932	July 1931	October 1931	October 1932
Men:						
Skilled and semi-skilled workers	\$0.650	\$0.660	\$0.601	\$31.20	\$31.68	\$28.85
Unskilled workers	\$0.479	\$0.473	\$0.432	\$22.99	\$22.70	\$20.74

SOURCES: *Monthly Labor Review*, January 1932.
 "The Service Letter on Industrial Relations", 1931 and 1932 (National Industrial Conference Board).

Table V.

JAPAN.

AVERAGE EARNINGS OF VARIOUS CATEGORIES OF WORKERS AT TOKIO IN JUNE 1932.

	Average earnings			
	Per day	Calculated for a 48-hour week ¹		
	Yen	Yen	In dollars	
			At par	Average rate for October
Stone-masons	2.93	14.80	7.38	4.48
Finishers	3.35	18.20	9.07	5.51
Day labourers	1.40	7.08 and 7.60	3.53 and 3.79	2.14 and 2.30

SOURCE: *The Monthly Report on Current Economic Conditions*, October 1932 (Tokio Chamber of Commerce and Industry).

Table VI.

SWITZERLAND.

RATE OF WAGES IN BUILDING AND ENGINEERING AT GENEVA IN JANUARY 1933.

	Rate of wages		
	Per hour	Calculated for a 48-hour week	
	Francs	Francs	In dollars at par
Building:			
Masons	1.60-1.80	76.80-86.40	14.82-16.67
Labourers	1.25	60.—	11.58
Engineering:			
Fitters: Time-workers	1.30	62.40	12.04
Piece-workers	1.40-1.45	67.20-69.60	12.97-13.43
Labourers	1.10-1.20	52.80-57.60	10.19-11.12

SOURCE: Communication from the Geneva "Chambre de travail" to the International Labour Office.

Table VII.

UNION OF SOVIET SOCIALIST REPUBLICS.

AVERAGE EARNINGS OF ALL WORKERS IN THE BUILDING AND ENGINEERING INDUSTRIES IN THE COUNTRY AS A WHOLE.

	Average earnings			
	Per month		Calculated for a 48-hour week ²	
	1931	1st quarter 1932	1931	1st quarter 1932
	Roubles	Roubles	Roubles	Roubles
Building	106.60	—	25.85	—
Engineering	120.87	139.70	33.90	39.20

SOURCE: Information from the International Labour Office on the basis of the *Collection of Statistics of the Central Statistical Office of the U.S.S.R.* 1932 and the "Report of the Labour Commissariat" to the Ninth Trade Union Congress in 1932.

¹ Taking as basis for stone-masons an average duration of nine and a-half hours per day, for finishers eight hours fifty minutes, and for day labourers each of these two periods.

² Taking as a basis for building an average monthly working period of 198 hours and for engineering 171 hours.

REMARKS ON TABLES IV TO VII.

The data contained in Tables IV to VII are taken from the national publications of the countries concerned or from communications addressed to the International Labour Office. All the reservations mentioned in the remarks concerning Table III also apply here.

It should be added that, from several points of view, the data are still less directly comparable among themselves. The date to which they relate does not always correspond to that of October 1932; in the absence of figures for the occupations referred to, it has been necessary to give averages covering all the workers in the same branch of an industry; and certain approximations have had to be made to convert the data originally given per day and per month and express them in terms of a theoretical 48-hour week.

For the United States of America, in the absence of data on the wages of fitters and machine-shop labourers in October 1932, figures are given for these two occupations in June to August 1931 in the State of Illinois, supplemented by figures showing the movement of wages between that date and October 1932 in the machinery industry as a whole.

As regards the U.S.S.R., no conversion into dollars was made owing to the impossibility of having a rate of exchange representing existing conditions.
