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LEAGUE OF NATIONS

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

NATIONAL DEFENCE EXPENDITURE COMMISSION

REPORT

**OF THE NATIONAL DEFENCE EXPENDITURE COMMISSION TO
THE GENERAL COMMISSION**

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

On March 8th, 1932, the General Commission decided, on the proposal of the Bureau,¹ to refer to the National Defence Expenditure Commission the following questions, to be dealt with, without a preliminary discussion by the General Commission:

1. Article 29 (Limitation of total annual expenditure). Proposals on the subject, more particularly:

- (a) Continuous study of the budgetary method in consideration of fluctuations in purchasing power;
- (b) Budgetary limitation relating to total expenditure and to individual chapters;
- (c) Abolition of secret funds and unification of the military budget.

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

3. Article 38 (Publicity of total expenditure).

4. Examination of the Report of the Committee of Experts on Budgetary Questions (document C.182.1931.IX):

(a) Part of the report concerning publicity.

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

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

Subsequently, the General Commission's resolution of July 23rd, 1932,² gave some indications as to the object towards which the National Defence Expenditure Commission's studies should be directed. The resolution contains the following paragraphs regarding the question of the limitation of national defence expenditure:

"(a) The Conference shall decide on the resumption of its labours, taking into account the special conditions of each State, what system of limitation and publicity of expenditure

¹ See documents Conf.D.100, 102 and 103.

² See document Conf.D.136.



on national defence will provide the peoples with the best guarantee of an alleviation of their financial burdens, and will prevent the measures of qualitative and quantitative disarmament to be inserted in the Convention from being neutralised by increases or improvements in authorised armaments.

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

2. CONSTITUTION OF A TECHNICAL COMMITTEE.

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

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

3. WORK OF THE TECHNICAL COMMITTEE.

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

The Expenditure Commission considers that the Technical Committee should continue its work by examining in turn the information supplied by the other States represented at the Conference and submit to it a subsequent report setting forth the essential facts regarding those countries. In that connection, the Committee notes that a number of States have not yet sent particulars of their national defence expenditure,¹ and the information sent by other States is incomplete.²

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

4. WORK OF THE EXPENDITURE COMMISSION.

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

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

The Expenditure Commission did not feel that it could enter into a detailed discussion of all the points fully treated by its Technical Committee, which was an expert body of very special competence. On the other hand, it considered it desirable to try to deduce from the Technical Committee's report certain particularly important conclusions and to indicate clearly the points

¹ Abyssinia, Bolivia, Dominican Republic, Guatemala, Honduras, Iraq, Peru.

² Afghanistan, Saudite Arabia, the Argentine Republic, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Egypt, Haiti, Hungary, Liberia, Lithuania, Luxemburg, Mexico, Panama, Persia, Siam, Turkey, Uruguay, Venezuela. The Estonian, Greek and Latvian documentations were completed after the drafting of the Technical Committee's Report. The Lithuanian delegation informed the Commission that a complete documentation would be communicated very shortly.

on which it agrees that the General Commission should take decisions. This was the object of the discussion which took place in the Expenditure Commission between May 22nd and 27th.

The principal conclusions to be drawn from that discussion are set forth in Nos. 5, 6, 7 and 8 below.

5. GENERAL CONCLUSIONS.

The Expenditure Commission is unanimously of opinion:

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

(2) That, in view of the present system of accounting of a number of States, it is not possible, for purposes of limitation, to separate with sufficient possibility of supervision:

(a) The expenditure on each of the three forces (Note to Article 29 of the draft Convention);

(b) The expenditure on land (Article 10) and naval (Article 24) material respectively.

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

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

6. BASES OF A POSSIBLE SYSTEM OF LIMITATION.

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

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

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

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

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

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

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

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

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

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

Other delegations, whether they accept the principle of limitation (Japan) or whether they hold the view that a trial period of publicity would be necessary in order to decide whether limitation is feasible (Austria, Bulgaria, Cuba, Germany, Hungary and Italy), consider that all the technical conditions necessary for the application of the proposed system are not at present fulfilled in all States and that hence it is not possible to apply this system immediately.

These same delegations are of opinion that the enforcement of publicity during a period of four or five years would be necessary before it could be ascertained that all the technical conditions necessary for possible limitation could be fulfilled and that hence the situation would have to be

re-examined at the end of this period to decide whether it was possible to put the system of limitation into practice.

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

Owing to the fact that the technical instruments of limitation and publicity proposed by the Committee are approximately the same, the Japanese delegation considers that the application of compulsory and supervised publicity (see 9 below) would also facilitate the fulfilment of the conditions for the putting into force of limitation, particularly the production of the published accounts by all States in a suitable form and within suitable time-limits.

The delegations of Austria, Bulgaria, Cuba, Germany, Hungary and Italy consider that the putting into practice of compulsory and supervised publicity (see 9) would in itself constitute one of the most effective methods of supervising a substantial measure of disarmament.

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The Expenditure Commission feels called upon to state briefly in its report the principal arguments which have been put forward by certain delegations for or against the possibility of the immediate application of the system of limitation.

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

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

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

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

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

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

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

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

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

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

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

As regards the *observations concerning accounts*, it was pointed out:

(a) That the degree of specification of a budget or an account depended, not only on the number of divisions, but also on the rational classification of expenses according to their nature and purpose. While this question is of undeniable importance from the point of view of publicity,

the accuracy of the aggregate total of national defence expenditure does not depend on the number of divisions and subdivisions in the accounts.

(b) and (c) Under the system proposed by the Technical Committee, the checking of the Model Statements supplied as evidence of limitation can only take place after the production of the statements—*i.e.*, after a uniform period of fourteen months from the end of the financial year; hence the checking of the observance of the contractual obligations will take place in equal conditions for all States. Furthermore, in order to remedy the length of the delay in producing the statement providing evidence of limitation, the Committee provided for a supplementary publicity (see 8 below) which will enable the Permanent Commission to follow constantly the financial outlay devoted by each State to its national defence.

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

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

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

The delegations of *Afghanistan*, *Canada* and *Estonia* reserve their opinion until the competent services of their Governments have been able to give an opinion on the immediate possibilities of applying the budgetary limitation proposed in the Technical Committee's Report.

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

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8. BASES OF A POSSIBLE PUBLICITY SYSTEM.

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

As regards putting such a system into practice, the fundamental factors should be those mentioned in point 6, Nos. (1)—(3) above; the technical instruments of publicity should be the Model Statement, the particulars attached to the Model Statement and the reconciliation tables.

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

9. SUPERVISION.

The Bureau of the Conference, in its report on the question of supervision dated November 17th, 1932 (document Conf.D.148) requested the various technical committees to consider whether, as regards certain special subjects, other methods than those proposed by the Bureau for the exercise of supervision would be better suited to their special technical requirements. While observing that a Sub-Committee of the Bureau, in a later document (Conf.D./Bureau 39), re-drafted the text of the original report on supervision and while remarking that the above-mentioned

documents of the Bureau have not yet been approved by the Conference, the Technical Committee complied with this request by putting forward a few special recommendations with regard to the supervision of the clauses of the Convention concerning the Limitation and Publicity of Expenditure.

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

10. MISCELLANEOUS CONSIDERATIONS.

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

11. SUBSEQUENT WORK.

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

The Expenditure Commission recalls what was said under No. 3 above with regard to the continuation of the Technical Committee's work. In order to permit of the drawing-up of instructions applicable to all countries, it seems particularly important that the Technical Committee should be in a position to examine the documentation of all the States without delay.
