

**FINANCIAL POSITION
OF THAT PORTION OF THE FOUR VILAYETS
ASSIGNED TO THE NEW STATE OF ARMENIA**

Since Article 241 of the Treaty with Turkey stipulates that states acquiring territory from Turkey shall participate in the annual charge for the service of the Ottoman public debt contracted before November 1, 1914, it is assumed that the new state of Armenia will only have to become responsible for the payment of an annual sum, rather than the assumption of its proportionate part of the various pre-war issues of Turkish bonds. This point should be clear as the principle is important. The financial regime of Turkey was extremely complex, that is, instead of issuing bonds the interest on which was to be paid out of general revenues, specific revenues were assigned to the service of particular loans. For example, the receipts of the tithe in a given province would be assigned to the kilometric guarantee of some specified railroad. Armenia should be exempted from the necessity of maintaining in vigor special assignments of revenues which may now apply to the Vilayets of Erzerum, Trebizond, Van and Bitlis, so far as these are awarded to Armenia. Unless these complicated arrangements of the Turkish system are cancelled, the new Armenian state would be seriously

handicapped in the establishment of a modern financial system which would have reasonable prospect of success.

In regard to the annual charge for which Armenia becomes responsible, Article 243 specifies that it shall bear the same ratio to the total sum required for the service of the debt as the average revenues of the transferred territory bore to the average revenue of the whole of Turkey during the three financial years 1909-1910, 1910-1911, and 1911-1912. There is little evidence to show that, as is often affirmed, under the Turkish regime districts inhabited by non-Turkish populations were obliged to pay more than their proportionate share of taxes and other contributions. For example, during the fiscal year 1911-1912 the per capita contribution of the inhabitants of the vilayet of Trebizond was L T 1.16, that of Erzerum L T 0.78, of Bitlis L T 0.69, and of Van L T 0.45, while the per capita contribution for the empire as a whole was L T 1.18.

Likewise, receipts per square kilometer in Trebizond were L T 52.56, in Erzerum, L T 12.15, in Bitlis L T 8.09, and in Van L T 3.96, as compared with average receipts per square kilometer for the empire as a whole of L T 16.82. The figure for Trebizond appears to be somewhat excessive, but it is comparable with that of L T 65.60 for the vilayet of Adrianople, L T 49.59 for Aidin (Smyrna), and L T 104.41 for Beirut.

As the distance increases from the administrative center of the empire, Constantinople, there is a tendency for revenues, both per capita and per square kilometer, to decline. In relation to the relative development of the vilayets, portions of which are to be assigned to Armenia, compared with other vilayets of the empire, receipts are perhaps smaller than might be expected. On the other hand, it should be remembered that through the industry and thrift of the Armenians their vilayets are somewhat more highly developed than districts inhabited by Turks, which have equal or superior natural resources. Actual revenues in the Armenian vilayets are therefore a somewhat larger percentage of potential revenues than is the case in other parts of Turkey.

Apportionment of the Turkish debt according to the ratio between the total revenues of the empire and the revenues of those portions of the vilayets to be ceded to Armenia seems by several tests to be eminently fair. In the following calculations it is assumed that Armenia acquires the entire vilayet of Erzerum, 75 per cent. of Trebizond, 66 per cent. of Bitlis, and 63 per cent. of Van. It is assumed further, as is necessary because of the lack of more detailed statistics, that the revenues of those portions of these vilayets, which are ceded to Armenia, are typical of the revenues of the vilayets as a whole. In other words, for purposes of comparison

with the total revenues of Turkey, all of the revenues of Erzerum are considered, 75 per cent. of the revenues of Trebizond, 66 per cent. of those of Bitlis, and 63 per cent. of those of Van. Comparing the revenues of the district to be assigned to Armenia with the total revenues of the empire for the fiscal year 1911-1912, it is found that this district contributed 5.6 per cent. of the revenues of the empire.

Another way of determining the fairness of the financial obligations assigned to the new state of Armenia is to discover what ratio the population of the district assigned to Armenia bears to the population of the empire as a whole. On this basis of comparison it is found that the district assigned to Armenia contained 7.7 per cent. of the estimated total population of the empire in 1911-1912. Using land area as a basis of comparison, it is found, that the district assigned constitutes 5.0 per cent. of the area of the Turkish Empire.

Since these percentages are in relatively close harmony it may be reasonably concluded that the districts under consideration were not unduly burdened with taxes and, consequently, that the revenues of these districts in comparison with the total revenues of the Turkish Empire may be regarded as a proper basis for the apportionment of the Turkish debt. This statement becomes

even more probable when it is discovered that the revenues of the Armenian district in the fiscal year of 1910-1911 compared with the total revenues of the Empire, constituted 5.2 per cent. of such total revenues, a figure very close to the 5.6 per cent. contributed in the fiscal year 1911-1912. Statistics for the fiscal year 1909-1910 are not available.

Accepting the average contribution of Armenia as 5.4 per cent. of total Turkish revenues and assuming therefore that approximately 5.4 per cent. of the Turkish debt on November 5, 1914, of L T 141,106,093 must be taken over by the new state of Armenia, its obligations would be L T 7,619,729 (\$33,526,807). The figures representing the debt of Turkey are those given in Annex 1. of part VIII of the draft Treaty of May 11, 1920. They should not be regarded as more than provisional. The annual charges for the service of this debt are given as L T 9,064,217, and Armenia will thus be called upon to assume annual payments of L T 489,467 (\$2,153,634).

If revenues in the district assigned to Armenia approximate those of the fiscal years of 1910-1911 and 1911-1912, the Turkish portion of the Armenian state should furnish about L T 1,630,000 (\$7,172,000), for the central government. Estimating that the population of the territory acquired by Armenia from Turkey will

be 1,700,000, after the refugees have been repatriated, the estimated revenues of L T 1,630,000 (\$7,172,000) give per capita receipts of only \$4.22, and of this revenue, debt charges absorb L T 489,467, (\$2,153,654), leaving but L T 1,140,533, (\$5,018,345), or L T 0.67 (\$2.95), for other administrative purposes. It should be borne in mind that these revenues constitute the income of the central government only and that, under the Turkish system, there are also local revenues of considerable importance but of uncertain amount. In other words, the \$7,172,000 above mentioned would not constitute the entire governmental income of the territory to be given to Armenia.

A clear picture of the position of Armenian finances in comparison with those of Bulgaria, Great Britain and the United States may be obtained from the following tables:

	Per Capita Debt Dollars	Per Capita Public Revenue Dollars	Per Capita Dept Charge Dollars	Ratio of Dept.Chg.to Total Rev. Per.Cent.
Armenia(1920)	19.72	4.22	1.27	30.0
Bulgaria(1914)	63.00	11.00	3.10	28.0
United States (1919)	229.00	47.00	9.85	21.0
Great Britain (1919)	753.00	85.00	26.24	30.0

Though by comparative standards the debt of Armenia is negligible, the new state is so poor, as evidenced by its

pitiful per capita revenues, that even this small debt requires for its service the same proportion of the estimated income of the government as does the enormous debt of Great Britain. If due caution is exercised Armenia is by no means in an intolerable financial position, but even slight extravagance would dissipate its very slender income and leave nothing for ordinary governmental purposes. The margin between solvency and bankruptcy is in the case of Armenia unusually narrow, and the government should clearly realize that though technically sound, the financial position of the State is in reality quite precarious.

It is, of course, impossible to calculate what revenues a state as yet unconstituted will require for the administration of its government. But, if the proper occasion arises, it would be a friendly act for the United States Government to point out that extreme conservatism should be exercised in the establishment of governmental agencies of an expensive character. As thirty per cent. of the estimated revenues of the central government are already pledged to the service of the debt assigned to Armenia, further borrowings should be undertaken with the greatest caution, as the debt charges are already of more than moderate weight.

The new state of Armenia will feel the need of so many public services, public works and governmental

agencies, that the temptation will be strong to increase expenditures beyond the bounds of due conservatism, in the face of the fact that funds for such expenditures must be obtained by floating loans in foreign countries. Such procedure can scarcely eventuate in anything but trouble and possible disaster for the new state. It must also be recognized in candor that a distinctly socialistic sentiment prevails, at least among the Armenians of the Erivan Republic, and pretentious schemes for the nationalization of mines, ports, railways, and public utilities in general, are likely to be attempted. Financial history is so replete with losses and bankruptcies incident to the inauguration of new public works, transportation systems and like enterprises, that the Armenian state should be warned against mortgaging its financial future by undertaking injudicious enterprises for which it does not have the requisite domestic financial backing. Nothing is implied either in favor of or in opposition to the nationalization of public utilities in countries which have been long established, but it would be dangerous indeed for a financially weak state to attempt the establishment and operation of enterprises involving large financial outlay, the capital for which can only be borrowed abroad at exorbitant rates.

Another danger which should be clearly pointed out to the Armenian state is involved in granting concessions

of a permanent nature to meet temporary financial requirements. The present state of the money market is such that loans on the best security can only be floated at exorbitant rates, and for a political experiment like the state of Armenia loans would certainly be granted only at extremely usurious rates or because those furnishing the loans secured extremely desirable concessions. Unless the utmost care is exercised, Armenia is likely to find that the natural resources of the country are mortgaged permanently to foreigners, whereas the future solvency of the state depends on carefully conserving its all too meager sources of potential income. It must be realized that concession hunters will be very active and will attempt to take the utmost advantage of the financial necessities of the new state. The United States can render signal service, both by advice and perhaps by small advances from the United States Treasury.

W. W. Cumberland,
Assistant Foreign Trade Advisor,

Financial Expert of the Harbord
Mission.