

C O P Y

ECONOMIC SURVEY
OF THE
REPUBLIC OF PANAMA

Prepared at the request of the Govern-
ment of Panama, under the direction
of
George E. Roberts,
Vice President
The National City Bank of New York.



C O P Y

Letter of Transmittal

September 20, 1929

GER

To The Honorable Florencio H. Arosemena,
President of the Republic of Panama,
Panama City, Panama.

Sir:

In the latter part of November, 1928, pursuant to conversations between yourself and Mr. James H. Drumm, Resident Manager of the Panama Branch of The National City Bank of New York, the President, of the Bank, Mr. Charles E. Mitchell, was informed that the Government of Panama was desirous that the Bank should lend its friendly offices by directing an Economic Survey of the Republic, with a view to submitting recommendations which might be helpful to the Government in its efforts to promote the economic and social progress of the country and improve the general administration of government affairs.

On account of the interest which it has in the prosperity of Panama by reason of being permanently engaged in business in the country, also on account of its relations with the Panama Government as Fiscal Agent at New York, and with appreciation of the existing state of mutual goodwill and confidence, the Bank was moved to accept the invitation as an opportunity of rendering a friendly service, and the undersigned was designated to have charge of the undertaking. Dr. Louis Keller, of the Research Staff of the National City Company, was appointed to make a preliminary inquiry and arrived in Panama on December 19, 1928.

Having regard for the value in such a task of special knowledge and experience in governmental organization and accounting, the project was laid before Mr. Herbert D. Brown, Chief of the Bureau of Efficiency of the United States Government, Washington, D.C., a bureau which, under Mr. Brown's direction, has been engaged for many years in a study of governmental methods in the executive departments. Mr. Brown responded to the inquiry with friendly interest and similar interest was shown by all officials of the United States Government whose cooperation was necessary, with the result that an arrangement was effected by which Mr. Brown and four members of his regular staff obtained leave of absence without pay for the period of time estimated as necessary to visit Panama and perform the proposed task. The

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action of the United States Government in this matter was prompted by a desire to cooperate in a service to the Republic of Panama, and the arrangement effected by the Bank with Mr. Brown and his aids was simply that the Panama Government would pay them the salaries which they would receive for similar services under the United States Government. The members of this party were Messrs. Herbert D. Brown, Chief; Herbert H. Rapp, James V. Bennett, Paul L. Rapp, and Archie L. Peterson. They have conducted an intensive study of the Executive Departments of the Government and have reported upon the same with comments and recommendations which form the body of the Fiscal Section.

In submitting the Report I wish to acknowledge the important contribution to it which has been made by Dr. Keller in his preliminary work and in all stages of preparation, and give recognition to the valued services of Dr. Brown and his aids upon the part of the work assigned them.

On behalf of myself and my associates I wish to acknowledge the most courteous attention and cooperation on the part of all officials and employees of the Government with whom we have come in contact, and to express our appreciation of the same.

I wish also to express thanks for courtesies and information to the officials of the Canal Zone and Panama Railroad, including Governor Harry Burgess, Major R. A. Wheeler, United States Army Engineer in charge of highway construction in the Zone, Mr. Samuel W. Heald, Superintendent of the Panama Railroad and Dr. Henry Goldthwaite of the Oficina de Sanidad (Health Office), to George Curtis Peck, Commercial Attache of the United States Legation in Panama; Mr. Harry D. Myers, Vice Consul of the United States; and to numerous officials and experts of the United States Government in Washington -- among the latter particularly Mr. H. H. Bennett, Soil Scientist of the Bureau of Chemistry and Soils; Mr. C. A. Burneister, of the Bureau of Economics, Department of Agriculture; Mr. R. A. Ramsay, of the Bureau of Animal Industry, Department of Agriculture; Dr. C. C. Pierce, Acting Surgeon General of the Public Health Service; Lieut. Colonel W. L. Patterson, Assistant Chief of the Bureau of Insular Affairs; Mr. George J. Eder, Chief of the Latin American Division, Department of Commerce; Mr. George C. Nellis, Chief of the Lumber Division of the Department of Commerce; Mr. L. H. Doney of the Bureau of Plant Industry, Department of Agriculture; also Major George R. Ahern, formerly Director of Forestry, Philippine Islands, and Dr. W. A. Orton, Director of the Tropical Plant Research Foundation, Washington, and Dr. G. J. Lloyd, of the Pan American Sanitary Bureau.

As an officer of The National City Bank of New York I desire to express appreciation of your confidence in requesting the Bank to undertake the Survey, also the hope that this Report will be useful to you in the discharge of your high responsibilities, and thus render a service to the people of Panama.

I am, with great respect,

Very truly yours,

Vice President.

THE REPUBLIC OF PANAMA

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THE REPORT

INTRODUCTION AND SUMMARY

THE REPORT (A)

INTRODUCTION AND SUMMARY (B)

New York, N.Y.
September 16, 1929

To The Honorable Florencio H. Arosemena,
President of the Republic of Panama,
Panama City, Panama.

Mr. President:

An Economic Survey such as this undertakes to be may be conveniently divided into two sections, viz, one including a review of the natural resources of the country and their present development, the population and its economic capabilities, wealth in the form of productive property, the state of industrial and commercial development, financial resources, transportation facilities and in general the field of private enterprise; and the other a survey of the Government in its various branches and activities, its methods of administration, system of taxation and the state of its finances. This division has been adopted in the Report which follows and this introduction will summarize as briefly as practicable the observations and conclusions which follow in greater detail. This involves some repetition, but we think the value of a condensed statement justifies so doing.

The scope of this survey has been restricted necessarily by the time at our command and the purpose to keep the expense within moderate limits. In dealing with several matters of importance we can only indicate the policy which we think should be pursued and suggest the prosecution of further inquiry, in some instances with the aid of specially qualified

advisers. Thus, in the reorganization of the postal service, the internal revenue system and the customs revenue system, we suggest that expert assistance be obtained. The organization of a Port Corporation for the management of a Free Zone is another subject upon which we recommend inquiry with a view to developing the conditions and terms upon which such an enterprise may be inaugurated.

The comparative strangers who have participated in this inquiry could not hope to become better informed upon the general economic situation which they were requested to study than are the intelligent business men and public leaders who have lived here all of their lives, and their families before them. They make no assumption of such knowledge. They simply take it for granted that in asking them to make such a survey you were thinking of the value there might be in the impressions made upon minds fresh to your problems, uninfluenced by personal interests, prevailing local opinion, or even the long familiarity with a situation which may cause old residents to wonder if they see all features in their proper proportions. It sometimes happens that while observers from abroad do not see everything, they are the more impressed by the matters of chief importance.

This reflection prompted our acceptance of the invitation to make the survey. The work has been done in a spirit of friendship and good will and the Report is tendered for whatever you may find in it appropriate to your needs. The value will not be in itself but in the reactions which may result when its suggestions have been subjected to the judgment of the Government and people of Panama.

Much of what we have to say is an old story to the residents of the country, but is said as a necessary part of the survey and as the foundation for observations which follow.

Panama has varied natural resources of great potential value, the development of which is not much more than begun. Historically it is an old country but in point of development it is one of the youngest. The activities and expectations of the people of Panama always have been centered upon the transit of travelers and goods across the Isthmus, rather than upon internal development. This was naturally so, because the location held out the promise that with the growth of international trade shipping lines would converge and meet at the Isthmus, thus providing transportation facilities which would make certain the development of an important commercial center.

When the completion of the Canal became a prospective certainty these hopes seemed near to realization, but although the volume of traffic now moving through the Canal is fully up to calculations, and the cities of the Isthmus derive important benefits from the Canal, trade development at the Isthmus has not been up to expectations. It is in order to say upon this, that the completion of the Canal coincided in time closely with the outbreak of the European War, which disorganized world trade to such an extent that it did not resume a normal course of development until years after the war was over. Furthermore, the people of Panama were probably over-sanguine in their expectations of speedy commercial development without relation to economic development in Panama and the countries immediately served by the Canal. The course of trade between Europe and the Far East has not been altered to any considerable extent by the Panama Canal. It still goes almost wholly through the Suez Canal, because the distance by the latter route is the shorter. Nor, of course, was the trade between the East Coast of South America and the East Coast of North America affected by the Canal. Trade between the Eastern and Western States of the United States passes through the Canal in important volume, but Panama does

not serve as a distributing point in this trade. Thus it appears that the principal trade field for which Panama is advantageously located comprises the countries around the Caribbean Sea and on the western coasts of North and South America. This is not to say that there is not other trade which can be handled at Panama in increasing volume but that this is the principal territory. The products and population of this territory will be the basis of Panama's future as a commercial center, although of course the shipping lines touching at Panama afford means by which this region can export to and import from all parts of the world.

It is apparent that the sustained growth of this region's trade can only keep pace with the growth in the volume of the region's exports, which means that it will grow with the internal development of the countries. The population of this region is not large. As yet the productivity per capita is low and the volume of foreign trade is comparatively small, and all of it was passing through accustomed channels before the cities of Panama appeared on the commercial map. It is not strange, under the circumstances, that distributing business has not developed here more rapidly.

After saying this, however, the fact remains that the countries named comprise an extensive region, of vast natural resources, growing population and increasing trade. There is a prospective volume of trade naturally centering at the Isthmus important enough to create much larger cities than are here now, provided these cities are prepared to handle it.

Two problems are presented in this connection, (1) that of exempting international trade from taxation, and (2) that of providing port facilities. Numerous through lines of shipping cross at the Canal, which affords not only the opportunity for direct transshipments but for distribution from stocks on the Isthmus; but this business cannot pay import taxes. Undoubtedly the Isthmus, in the large sense, is an eligible location for a free

port, but where will it be located? Neither of the cities of Panama has adequate port^{facilities,} and a port for world trade should have docks on the Canal or upon a basin connected with the Canal. This subject is discussed at length in the Economic Section of the Report.

Aside from the development of entrepot trade, the cities of the Isthmus have a sure basis of growth in the increasing volume of travel and traffic through the Canal and in the development which is bound to occur within the Republic of Panama. The country has the natural resources for the production of many commodities which the world is wanting, and for the support of a large population. It has a healthful climate, of rare equability, -tropical, but modified by the breezes off two oceans, which play over the entire area.

It has mineral wealth and forest wealth which undoubtedly will be of great realizable value, although practically nothing has been done with either as yet. It has a wealth of productive soil in all regions: where the surface is^{too} broken for the cultivation of annual crops, nutritious grasses will provide pasture for cattle, valuable timber will grow or indigenous shrubs will produce valuable products, such as coffee and cacao.

It has seemed pertinent to this inquiry to set forth at some length the facts as to the growing importance of tropical products in world trade. Probable not even where the facts are best known is there an adequate conception of what this increasing demand for tropical products means to both producing and consuming populations. It signifies an exchange of products upon a scale much greater than in the past and beneficial to all parties concerned. The diets of all peoples are being broadened by the addition of new and healthful foods. Populations which have been backward in development from lack of employment or a market for their products are feeling the stimulating influence of a demand for labor, and are coming

into possession of a purchasing power which they have not known heretofore. The rapidly increasing consumption of rubber, coffee, tea, sugar, cocoa, copra, the tropical fruits, nuts, woods and fibres, vegetable oils and other tropical products is working a profound change in the relations between the countries of the Tropics and the temperate zones.

The advance of science in medicine and hygiene, by correcting the long prevalent idea that the Tropics are necessarily unhealthy, has done much to promote this change, by opening these regions as fields for enterprise and investment.

A number of the most important tropical products had their first introduction to world markets from tropical America, but because of political instability in the countries of their origin, lack of industrial organization, larger labor supply else here, or other reasons, their production has passed almost wholly to Asiatic and African Colonies of European nations. The Canal created a demand for labor in Panama which took this country out of the list of cheap labor countries, and this has been said to be a bar to its development, but the increased demand for tropical products is raising wages in all tropical countries, and soon there will be no cheap labor anywhere.

In this new era of tropical development Panama has shared but slightly as yet, except through the activities of the United Fruit Company, but the growth of this Company's operations illustrate the possibilities in several lines. Porto Rico, Hawaii, the Philippine Islands, and to some extent, Cuba, have had relations with the United States which have given them an advantage in that market. Moreover, the United States throughout its history has been a protectionist country, and in pursuance of that policy has maintained duties upon semi-tropical products which compete with the products of its Southern States. The semi-tropical products, however, are not of the

largest importance to Panama, and so far as true tropical products are concerned we believe that the claims of Panama to access to the United States market upon favorable terms will receive considerate attention. Moreover, the shipping facilities available to Panama, will secure for her a fair share of the growing world consumption of these products.

The development which may be foreseen for Panama necessarily will require time, for the country needs to gain both capital and population from abroad. It is not without capital, or business men capable of inaugurating new industries, and the remarkable development of the pineapple industry in Hawaii from small beginnings is an example of what home enterprise may do. On the other hand, the United Fruit Company has shown what a highly organized system of production, transportation and marketing can do. Panama need not wait on outside capital, but there is plenty of room for it and its coming is only a question of time.

The labor question is an important one with any new industry for there is no considerable supply of unemployed labor in the country. In the last analysis, an increase of population ^{obviously} ^{fundamental} ~~is the greatest~~ need of Panama. It is wanted to supply labor for export industries, a home market for the products and services of the cities, revenues for the Government and in a broad sense to increase the strength and importance of the nation. Panama wants immigration of a desirable class, as do all undeveloped countries. Considerable space is given in the Economic Section to an account of the efforts of other countries to promote settlement. As a rule it appears that such efforts have not produced ^{very} important results and certainly it is doubtful if any good would come from an influx of farmers unacquainted with tropical conditions or laborers, mechanics or other workers dependent upon employment, but without definite prospects of obtaining it. Selected, rather than indiscriminate, immigration is wanted. There is reason to believe that as industries

develop and require labor they will prove to be the best agencies for the promotion of immigration of the wage-earning class, subject to such restrictions as the Government may deem advisable in the general interest. Population will come inevitably with the development of industries.

Naturally the first choice of immigrants would be from people of Spanish blood and speech, and it would be worthwhile to have a study made of possibilities in that quarter. The Island of Porto Rico has such a population and comparatively speaking is over-populated. A movement from Porto Rico to Panama, even if encouraged, would hardly be rapid enough to more than modify the increase of numbers in the former, and probably ^{would} be beneficial all around. The Canary Islands have a population about equal to that of all Panama upon a land area less than one-tenth ^{that} of Panama. These Islands and the mother country herself contributed to the labor force which constructed the Canal and undoubtedly can be drawn upon for contributions to the permanent working forces of Panama. The Italian population is of a kindred race and readily assimilates with a Spanish population. Altogether, there is no lack of sources from which desirable immigrants may be obtained, when the industries of Panama are known to afford remunerative employment.

The part which a Government has to play in the development of a country is comparatively small, but of fundamental importance. A Government cannot go far in industry or business on its own account, for it has no funds but such as it may raise by taxation, or loans based on the power of taxation, and the taxing power will not go far unless private industry and thrift create a state of prosperity which enables a people to pay taxes. The best contribution a Government can make to the development of a country is good Government, in the discharge of functions which can be performed only by Governments.

There must be an authority which will maintain order, afford protection to life and property and provide competent and impartial courts for the

administration of justice. Numerous other functions have been assigned to Governments by common consent, because they are considered vital to the public welfare, and governmental authority and support are deemed necessary to their efficient performance. Among them are the protection of public health, the maintenance of public schools, roads, docks, markets and the postal service. All of these may be considered primary services, to be maintained without the purpose of profit. The manner in which the responsibilities of Government are discharged determines whether or not a country will be considered a good place in which to have one's home or do business.

The founders of the Government of Panama were able and patriotic men, well-versed in history and law, and the Constitution which has come down from them embodies an enlightened polity, at once liberal in spirit and conservative in procedure. The system of law is of the same tenor. In Panama, as elsewhere, there is little to fear from the intent of the laws; the chief danger everywhere is from loose and improvident management of public affairs. The critical test of good management is in faithful, intelligent and economical administration.

The National Government of Panama is less than twenty-six years old, and it succeeded to a local government of very simple functions and expenditures. It inherited but little in the way of public buildings or public improvements, and of public institutions and public services there were only primitive beginnings. A new governmental organization, a new system of services and a new scale of expenditures were necessary. The last budget of the Republic of Colombia making provision for the government of the Department of Panama, (Presupuesto de Rentas y Gasto del Departamento de Panama) contained an item of 2,214,000 pesos for that purpose, including all expenses of public administration for a biennial period. The peso current at that time was a silver coin, having a gold value of somewhat

less than fifty cents, so that calculated in gold the sum of expenditures for two years would be approximately 1,000,000 Balboas. As against this sum, the ordinary revenues of the Republic of Panama in the fiscal period ended June 30, 1927, were \$14,996,052.94, and for the current period ending June 30, 1929 will be considerably more than that.

Revenues, however, have not come fast enough to meet the rising scale of expenditures, including the program of public improvements adopted by succeeding Administrations, and a public debt has been contracted, amounting on December 31, 1928 in the aggregate to approximately \$20,000,000.

The particulars as to this debt are given in the Fiscal Section of this Report. The sum named includes long-term loans for various purposes, also approximately \$1,726,000,000 owing to the United States for the construction of public works in the cities of Panama and Colon, under a treaty agreement which provides that the United States should contract the works and reimburse itself by the collection of water rents over a period of fifty years. This item, therefore, is not a Government debt in the usual sense, and may be disregarded as such. On the other hand, the sum total does not include current items of floating debt, aggregating something over \$1,350,000.

Nearly all of this debt is in the form of foreign loans, negotiated for certain public improvements. A small part of the proceeds was used for paying off outstanding domestic loans, but including appropriations from revenues total outlays for capital purposes considerably exceed the total of the public debt.

The large factor in this debt-expansion has been road construction, total cost of which as now provided for will be about B16,000,000. Of this amount about B3,500,000 has been met from general revenues and approximately as much remains on hand from the proceeds of the loans to complete the work as planned. Approximately B5,000,000 has been expended

(*) The Balboa of Panama is the equivalent in value of the United States Dollar.

upon the Chiriqui Railroad. In addition have been expenditures running into the millions upon public buildings, notably, the Presidential Palace, the Capitol building which houses four Departments and includes the Assembly Hall and the National Theatre, the Institute of Education, St. Tomas Hospital, the Auditorium, and others in Panama City and other cities of the Republic. As an offset to the public debt is to be considered also the "Constitutional Fund" of \$6,000,000, which is invested in mortgages upon New York real estate, and the Canal annuity of \$250,000 per year. The latter capitalized at 5 per cent per annum represents a value of \$5,000,000. The interest on the funded debt is running at the rate of about 11 per cent of estimated revenues for the ensuing biennium, and interest together with fixed amortization payments will be about 15 per cent. The amortization payments will aggregate about \$572,000,000 in that period.

This is a showing of substantial progress in the first 26 years of the nation's life, having regard for the available resources at the beginning and the development of governmental services which has been achieved. In expenditures upon the educational system, hospital and health service and road construction it may be questioned whether any population of equal numbers and resources has done better in that time.

It is true, however, that much of the road costs is yet to be paid and that the roads themselves do not yield revenues to the Treasury; on the contrary, they involve the continuing costs of upkeep^{and} payments upon the principal of the loans are now falling due annually. Government expenditures have been increasing rapidly in the last six years and are now on a considerably higher scale than at any time heretofore. It is not difficult to name other projects and services which the Government might well undertake if it had the income to support them, but the records of the Treasury show that expenditures are outrunning income at a serious rate and that a prompt and thorough revision

of expenditures is necessary in order to restore the Treasury to a sound position.

The most important task a Government has to perform is that of keeping its finances in order, for upon that everything else depends. The principles which apply to Government finance are no different from those which apply in private affairs. Expenditures should be kept strictly within available funds, and if for a limited time or particular purpose there is occasion to expend more than is available from current revenues, the excess should be provided by loans, with interest and amortization charges thereon amply covered by assured revenues. These principles must be observed for the maintenance of the public credit.

Moreover, one essential basis of sound finance is good accounting and the system of Government accounting maintained in Panama does not readily afford a complete showing of Treasury liabilities. This is due mainly to the fact that obligations incurred by the several departments and offices of the Government frequently are not reported to the central accounting office until services are fully rendered and payment is demanded. In other words, the central accounts are practically on a cash basis.

We have reviewed Treasury transactions for the eighteen months, July 1, 1927 -- December 31, 1928. They show a cash balance on the former date of B362,325.97 and revenues collected to the latter date of B11,937,159.74, making total available funds, B12,299,485.71. Total ^{disbursements chargeable} ~~current expenditures in~~ to ordinary revenues in /this period were B11,613,787.24, but payments on account of previous biennial periods (properly chargeable to previous budgets) aggregated B566,223.81. Thus the payments on account of previous fiscal periods exceeded the cash brought forward at the beginning of the current fiscal period by B203,897.84. That is to say, a deficit of at least this amount existed at the end of the preceding fiscal period, and how much more depends upon the sum of such

obligations still outstanding at the dates named. There is no record which certainly shows. The total of all disbursements in the eighteen months on account of the current and previous fiscal periods was B12,130,011.05, against total cash revenues of B12,299,435.71, which might be thought to indicate that the Treasury was in a fairly comfortable position, but the Fiscal Agent estimated that valid claims outstanding on December 31, 1928, aggregated in round numbers B1,000,000. It seemed probable, at a conservative estimate, that this deficit would be increased by the end of the biennial fiscal period, June 30, 1929, to as much as B1,500,000.00. As already stated, this deficit is not all chargeable to the 1927-1929 period; at least B566,223.81 is chargeable to previous periods, and possibly more, but the amount chargeable to the current period is alarmingly large.

It is needless to discuss or emphasize the evils of a situation like this, where the Fiscal Agent, the official designated by law to validate proper claims and draw the checks for payments, is from day to day obliged to stall off legitimate claims or apportion dribblets of cash as in his discretion seems best. It is beneath the dignity of the Government and humiliating to its officials and all its citizens who know of the situation. Furthermore, the credit of the Government is suffering injury and soon, if not now, unless the situation is improved, no one will sell supplies to it without adding to the price ample compensation for all the delay and trouble which attends upon the collection of accounts.

We do not, of course, assume that the responsible officials of the Government would deliberately plan for a situation like this. We attribute