

so placed that it will cause the least interference with the natural flow and growth of business. They are maintained for the reason that notwithstanding the large increase of revenues which has occurred in recent years they are needed for the revenues they produce. We do not suggest that it is practicable to do away with all import duties, but we think the increase of rates in recent years might have been avoided by keeping government expenditures on a lower level, and that governmental policy in the future should be directed to the purpose of gradually lowering the rates, ultimately to not more than 5 or possibly 3 per cent.

#### BANKING FACILITIES AND THE MONETARY SYSTEM

Three foreign banks of large capital, to-wit, The National City Bank of New York, the Chase National Bank, of New York, and the Royal Bank of Canada, have branch offices in Colon and Panama City. These afford ample facilities for the class of business which such banking institutions are accustomed to handle, which includes credit for commercial purposes and loans for limited periods on collateral security. They also make loans and advances upon the security of real estate, but their operations of this kind usually are confined to parties doing other business with them. The capacity of these institutions to supply credit is not limited to deposits received in Panama. They are able to bring in funds from outside to meet proper demands, but as a matter of prudent policy in the conduct of the banking business they do not make long term loans.

Complaint is made that credit is not available for agriculture, but speaking generally, agriculture in Panama has not yet been established upon a basis which entitles it to the use of bank credit. It must never be forgotten that bank funds which have their origin in deposits made by the public are of the nature of trust funds and should be employed only in uses

and upon security which afford reasonable assurance that they will be repaid according to the terms of the agreement. While the possibilities of agriculture in Panama undoubtedly are large, few agriculturists as yet have demonstrated that they are able to produce regularly for the public market, or that they can use borrowed money advantageously.

Banking facilities are not lacking for parties who can show that the funds applied for are wanted to supplement capital of their own which already is producing satisfactory returns. Bank funds cannot properly be employed except upon this simple condition. Any other employment makes the lender practically a partner in a business not yet fully established, and while an individual lender, who is disposing of his own private capital, may be willing to make such advances, a bank which is handling the money of others, repayable on demand, cannot safely do so. It is a sound principle that the primary hazards of a business must be borne by the owners or parties in immediate charge of the same. When they have demonstrated that the business is able to use more capital successfully, and are able to offer the pledge of capital already successfully employed, they will be in position to use bank credit.

Announcement has been made recently of the organization, under the laws of Panama, of another banking institution, with the name "First National Bank and Trust Company." The Honorable Belisario Porras, ex-President of the Republic of Panama, is announced as President, and it is stated that the capital authorized by the charter is \$1,000,000, with an authorized surplus of \$300,000. The announcement states that the Bank will open for business in Panama City June 1, 1929, or soon thereafter and that branches will be established in other parts of the Republic.

#### A Government Bank.

The Banco Nacional de Panama is an institution entirely owned by the National Government, established in 1904, and has a local agency in each

province. It invites deposits and undertakes to do a general banking business, but its published statement as given below indicates that its principal business is that of making mortgage loans. The condensed balance sheet as of August 31, 1928, which accompanied the Report of the Bank to the Legislative Assembly, dated September 10, 1928 is given herewith:

## ASSETS

Real Estate	B. 77,241.68
Furniture and Fixtures	11,051.75
Cash	540,429.57
Agencies and correspondents	293,652.54
Drafts to be collected	263,619.49
Dept. Mortgage certificates	101,585.37

## Loans:

With personal guarantee	2,113,828.06
With mortgage guarantee	2,929,711.60
	<u>5,043,539.66</u>

Total Balboas - - - - - 6,331,120.06

## LIABILITIES

Capital	B. 837,446.70
Reserve Fund	939,563.99
Profits to be divided	129,245.05
Mortgage certificates	1,850,000.00
Deposits	<u>2,574,864.32</u>

Total Balboas - - - - - 6,331,120.06

The balance sheet shows outstanding obligations in the form of mortgage bonds aggregating B. 1,800,000. These bonds are covered, with a margin to spare, by mortgages upon real estate, mainly in Panama City. The Report to the Assembly says:

The benefits obtained through these operations are notable. The capital city is being enlarged and improved with modern buildings; the taxes that the State collects increase on account of these buildings, and the problem of residential accommodations, from the point of view of comfort and hygiene, offer less difficulties. From the second issue of bills, called Series "B", loans have been made with mortgages on properties situated in the interior of the country to an amount equal to 25% of the net product of said issue, in accordance with law 34 of 1927.

Lately the Bank has been suggesting the contract of a third

issue of mortgage bills, under better conditions than the previous ones, and only some small details of form are necessary to this end. The advantages of this new issue consist, among others, that the Bank grants a security of 110% instead of 140%, as stipulated in the preceding contracts, and that some restrictions, which were imposed in the preceding contracts, are eliminated. Also, the part that should be invested in the provinces of the interior, has been increased to 30%.

Since the date of the above Report two additional bond issues of B.1.000.000 each have been sold, making the total of such issues outstanding approximately B.4.000.000. These bonds, besides being the obligations of the Banco Nacional, are fully guaranteed, principal and interest, by the Republic of Panama, and have been sold abroad (in the United States and Canada).

This business of mortgage banking is carried on in numerous countries by institutions either owned by the State or in which the State is interested as part owner, guarantor or in a supervisory capacity. Much is to be said in favor of the policy of having the State lend its credit in this manner to bring in outside capital for the upbuilding and development of a new country, but experience elsewhere justifies saying that the business must be conducted not only with integrity but with excellent judgment in order to avoid losses to the public treasury. Several States of the United States which have embarked in this business have suffered heavy losses through the failure of borrowers to meet their obligations and the consequent obligation of the States to make good upon their own guarantees. It is no reflection upon parties who are responsible for a trust of this kind, but simply the enunciation of a sound principle of public administration, to say that where the public treasury is ultimately liable as guarantor it should be safeguarded by an independent examination of the accounts and the loans from time to time. Over and over again this lesson has been taught, and there is no good reason for disregarding it. The losses in the United States have not been due to defalcations or known dishonesty on the part of officials making the loans, but to mistakes

of judgment in valuing property, and, possibly in some cases, to the fact that the judgment of such officials had been influenced by political considerations.

In the case of the Banco Nacional the law requires no independent audit, but does require that a Report upon the administration of the institution shall be made to the Assembly, and it would be entirely in order to add the requirement that the Report shall be accompanied by a certificate of audit made either by a qualified officer of the Government, a well known firm of public accountants, or a Committee of well known business men named by the President of the Republic. The growth of the liabilities of the Government on account of the Bank's operations justifies such a requirement. In the draft of an act for the establishment of an office to be known as the Office of Comptroller-General, which accompanies this Report, one of the duties named is that of auditing the books, records, accounts and documents of the Banco Nacional, of the municipalities, and of any organization, society, school, or other body receiving any moneys toward its support from the National Treasury.

The fact that the Treasury has received no dividends or income of any kind upon its investment in the Banco Nacional since 1925, although paying in that time the aggregate sum of \$162,966.54 in commissions for the services rendered by the Bank in its behalf, should have some justification or explanation, and an independent audit would give the proper answer.

It will be observed that the foregoing extracts from the last Report show the greater part of the mortgage loans to be secured upon urban property. Usually mortgage banks which are Government institutions lend only upon farm property. It is probable that on account of the backward state of the rural districts of Panama, the policy of the Banco Nacional in confining its lending operations so largely to city property has been a prudent one, but with the development of agriculture to a basis of assured income, it may be desirable for the institution to give its attention <sup>in part or mainly</sup> ~~wholly~~ to that field. There is also the question as to short credits for the cattle industry, already referred to, and for the coffee industry and other branches of agriculture. We are not prepared to

take the responsibility of advising that a Government-owned institution should make a departure of this kind, believing that if the laws are adequate to protect such credits the commercial banks or private lenders will meet the wants. However, since a Government-owned bank exists, and was established upon the theory that it would serve as a Government agency for the development of the country, it would seem appropriate for this institution to specialize in this class of business.

Whether or not such business can be successfully handled by a Government institution of course is a question of practical management. In order to do so it would be necessary to employ the services of persons especially qualified by acquaintance with would-be borrowers, and familiarity with all features of the business. In the case of the cattle industry it might be possible to enlist the cooperation of the leading interests involved in the industry. With advisers of this kind a service might be developed which would be of much practical value.

#### Monetary System

The monetary system of Panama was established in 1904; the unit being the balboa, a gold coin of the same standard of weight and fineness as the American gold dollar. The following coins were authorized: In gold, 5, 10, and 20 balboas; in silver, 1 peso, 1/2 peso, 1/5 peso, 1/10 peso and 1/20 peso. The peso was to weigh 25 grams and have a current value equivalent to one-half a balboa; the fractional silver coins were given a weight and value proportionate to the peso. All coins were to be 900 fine. The gold coins and the peso have not been minted but the Executive Power was authorized to coin and issue not to exceed 3,000,000 pesos of the fractional coins to take the place of the Colombian silver coins then in circulation in Panama. The monetary law provided that to guarantee the parity of the silver coins a sum of gold equal in value to 15 per cent of silver issues should be deposited with a responsible banking institution in the United States, and this provision was carried out.

The above system was carried into the present Fiscal Code, approved in 1916, except that a B/2 $\frac{1}{2}$  gold coin was added.

The World War raised the price of silver so much that the silver coins issued under the act of 1904 ~~issued~~ became worth more as bullion than as coin and disappeared, presumably having been melted.

In 1917 a law was passed covering the monetary system (Law 62 or 61). This provided for silver coins of one-half, one-quarter and one-tenth of a balboa, of the same standard of weight and fineness as the corresponding United States silver coins, and nickel coins of one-twentieth and one-fortieth of a balboa. The new silver coins have not been issued, but recently the new nickels (.05) and half-nickels (.02 $\frac{1}{2}$ ) were put in circulation.

The law of 1904 still makes all silver coins a legal tender, but in view of the fact that gold is the standard metal and the silver coins are intended to serve only as tokens, circulating at a nominal value higher than the value of their metallic contents, we think that if any further issues are made their legal tender value in any single transaction should be restricted, say for example, to B10.

The Constitution forbids issues of paper money either by the State or any banking institution, and in view of existing circumstances this is a wise provision. By reason of the close business relations existing between Panama and the Canal Zone, the constant flow of travel from the United States, the payment ~~at~~ of United States military and naval forces and Canal tolls in United States money, an ample supply of United States currency is always in circulation. Two kinds of paper money in use would be confusing rather than convenient, for variations might occur in the exchange relations between them.

As to any profit which might accrue to the Government or a Government Bank from paper currency issues, it would be inconsiderable, and of no importance in comparison with the dangers involved in the troublesome problem of

regulating the volume of currency and maintaining it at par with gold and the foreign exchanges. In countries having a Central Bank of Issue the discount rate of that institution is an important factor in the maintenance of the gold standard, but in order that this may be so the Bank rate must be actually an important factor in the business life of the country; that is to say, business must have reached the stage of development where it is using constantly a large volume of short term loans of a very liquid character and where the Central Bank holds a dominating position in the banking system. This is not the case in Panama or likely to be in the near future. The supply of currency in Panama under present conditions tends to increase faster than the local demand, inasmuch as travelers and ships bring in more than they take out; moreover, the present banks of Panama have relations in New York which enable them to obtain readily any supplies that may be needed. Thus the currency supply now presents no problem.

The most complicated problem known to banking or governmental science is that of managing a paper currency, and none is more important to the business community. Furthermore, Panama is a new country, desiring an inflow of capital from abroad for the development of her latent resources. The first question any prospective investor considers before transferring his capital to any foreign country is in regard to certainty that the money of that country will remain on the gold basis. Will his income from the proposed investment, or his principal, should he wish to withdraw it, always be convertible into gold, at the fixed rate of exchange?

It is impossible in the case of a small and young country to answer this question to the satisfaction of everybody. There are many countries as to which the answer cannot be given with such certainty as to set at rest all doubts. In the case of Panama there is no need to raise the question.



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It now has a self-regulating supply of currency, the character of which is as little open to doubt as that of any money in the world. Through the use of United States money the business of Panama is firmly established upon gold, and one of the serious problems which faces most young nations of undeveloped and limited resources is eliminated entirely.

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THE CANAL AND AUXILIARY ENTERPRISE (A)

The most important business on the Isthmus in magnitude of operations under one management is that of the Canal with its auxiliary enterprises, including the Panama Railroad. We have referred to the Canal and Railroad in a review of the transportation facilities of the country, but will touch here upon their importance as industrial enterprises, giving support to a population in part living in Panama territory, and their relations in other respects to the business life and the prosperity of Panama.

On account of some advantages of doing business with the public through a corporate organization instead of through the Canal organization, the Railroad Company carries on the enterprises auxiliary to the Canal which are maintained for the purpose of rendering services to shipping and to the employees of the Zone system. These auxiliary enterprises are the terminal docks, drydocks, oil and coaling plants, repair shops, commissaries (general supply stores for employees), abattoir, cold storage plants, dairy farms, laundries, hotels at the terminals, etc. All of these enterprises of course are in the Zone and the business transacted by them is not business in Panama. Nevertheless, the Zone communities of Balboa and Cristobal are immediately adjoining the Panaman cities of Panama and Colon, many residents of these cities find employment in the Zone activities and an important amount of trade comes to both cities from Zone residents.

An official calculation as of February 28, 1929, reaches the conclusion that at that date a total of approximately 62,865 persons were deriving support directly from United States activities in the Zone. This included 10,350 officers and men of the Army and Navy, and 8,802 persons of the civilian population, or a total of 19,152 for the American population. Of the alien population, nearly all West Indian laborers, there were 4,437 men and 9,988 women and children living in the Zone. An additional 9,741 men of the "silver"

payroll were known to live across the line in Panama territory, and as the number of women and children in their families was unknown it was calculated on the basis of the "silver" employees and their families living in the Zone. On this basis the total number of persons in these families would be 29,238.

The United States Government did not stop with the construction of a bare Canal, but has provided the varied auxiliary equipment and services heretofore referred to for the purpose of meeting the needs of shipping at this point. Account was taken of the fact that it is a long distance either way to ports where such facilities exist; moreover, ships have been known to arrive at the Canal in a condition which involved the danger of their sinking in the transit of the Canal. The Canal being a meeting point for ships from all quarters of the globe, wharves are provided at both entrances to give transshipment facilities. There are five general cargo piers at Cristobal and one at Balboa, approximately 1,000 feet long and from 200 to 240 feet wide, built of concrete and steel, and provided with modern freight handling facilities. The total investment in these cargo docks is \$3,140,332.00. There are service docks also in connection with the repair shops, coal plants, etc.

The drydock at Balboa has 1,000 feet of usable length on the keel blocks, and is 110 feet wide at gate, with a depth of 35 feet at mean tide, high tide varying from 3 to 11 feet above mean tide. It will take in any ship afloat with room to work around her.

The two coaling plants at the termini of the Canal have a combined capacity of 700,000 tons. The equipment is modern. Coal sales in the fiscal year ended June 30, 1928, aggregated \$2,868,000.

The Canal has a pumping plant for supplying fuel oil, and controls oil tanks and tank sites, but leases the latter to private companies making sales. The Canal does the pumping.

The principal repair shops are at Balboa, adjacent to the drydock. They include a machine shop, capable of working upon any ship machinery and

making any ship repairs, having in all departments a floor area of over 300,000 square feet.

Naval and other vessels owned and operated in the Government service of the United States, Panama or Colombia, and vessels transitting the Canal solely for repairs at the Balboa shops, are exempt from the payment of tolls. The number of toll-paying ships transitting the Canal in the fiscal year 1923 was 6,456, which was the largest in any year, and compares with 5,425 in 1922 and 5,197 in 1921. Calls at the Canal ports by vessels not transitting the Canal in 1923 numbered 1,123, cargo handled at Canal ports aggregated 1,300,119 tons, ships repaired, other than Canal equipment, numbered 1,093; ships dry-docked, other than Canal equipment, 134, provisions sold to ships aggregated \$1,429,647.35 and ship chandlery sales aggregated \$149,055.47.

The water supplies of Colon and Panama City come from the water systems of the Zone, at a compensatory charge, and under the terms of the treaty the sanitary regulations of the two cities are under the supervision of the Zone authorities, the latter bearing a share of the cost. This is on account of the mutual advantage in maintaining healthful conditions throughout these closely related communities.

The Canal authorities operate the only mercantile establishments in the Zone, known as "commissaries," which are conducted primarily for the purpose of supplying the wants of employees, including the Army and Navy, and of passing ships.

The value of sales by the commissaries in the fiscal year 1923 was \$9,682,240.75, distributed as follows:

Army and Navy - - - - -	\$1,431,333.77
The Panama Canal - - - - -	728,124.00
Steamships - - - - -	980,513.28
The Panama Railroad - - - -	411,324.77
Individuals and companies -	681,812.45
Employees - - - - -	5,857,279.24
	<hr/>
	etc. 10,090,327.51
Less discounts, credits, etc.	<u>408,146.76</u>

Relation Between Panama and the Zone. (B)

The relations between the Republic of Panama and the Canal Zone, and particularly the influence of the commissaries upon business in the cities of Colon and Panama City, have been a subject of much discussion and of formal representations by the commercial bodies of the two cities, the latter claiming that commissary activities exceed the scope contemplated by the treaty between the United States and Panama and violate the spirit of the understanding between the two countries. The interpretation of the treaty, of course, is a matter for the governments of the two countries to determine between themselves and we shall not deal with the subject except as seems incidentally necessary in discussing the economic situation ~~xx~~ of Panama.

Articles II and III of the Canal Treaty read as follows:

Article II.

"The Republic of Panama grants to the United States in perpetuity the use, occupation and control of a zone of land and land under water for the construction, maintenance, operation, sanitation and protection of said Canal of the width of ten miles extending to the distance of five miles on each side of the center line of the route of the Canal to be constructed; the said zone beginning in the Caribbean Sea three marine miles from mean low water mark and extending to and across the Isthmus of Panama into the Pacific Ocean to a distance of three marine miles from mean low water mark with the proviso that the cities of Panama and Colon and the harbors adjacent to said cities, which are included within the boundaries of the zone above described, shall not be included within this grant. The Republic of Panama further grants to the United States in perpetuity the use, occupation and control of any other lands and waters outside of the zone above described, which may be necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said Canal, or of any auxiliary canals or other works necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said enterprise."

Article III.

"The Republic of Panama grants to the United States all the rights, power and authority within the zone mentioned and described in Article II of this agreement and within the limits of all auxiliary lands and waters mentioned and described in said Article II which the United States would possess and exercise if it

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were the sovereign of the territory within which said lands and waters are located to the entire exclusion of the exercise by the Republic of Panama of any such sovereign rights, power, or authority."

The treaty was signed by the negotiators at Washington on November 18, 1903, ratified by Panama on December 2, 1903, and ratified at Washington on February 25, 1904. Within a few months a serious question developed in regard to sovereignty in the Zone, precipitated by an action of the Governor of the Canal Zone, establishing United States ports, custom houses and post offices in the Zone, and putting the United States customs tariff into effect upon all imports into the Zone. The Government of Panama, laying emphasis upon the provisions of Article II, as defining the scope of the agreement, held that the latter did not imply cession of territory and absolute transfer of sovereignty, but only a grant of use, occupation and control for a stated purpose, to-wit, the "construction, maintenance, operation, sanitation and protection" of the Canal, as set forth in Article II. On the other hand, the United States Government, through the Secretary of State, held that the words quoted were not intended as a limitation on the grant, and that the conveyance of sovereignty was more explicitly defined in Article III.

The Congress of the United States had vested authority for the Government of the Zone in the Secretary of War, and the occupant of that office at the time was the Honorable William Howard Taft. Secretary Taft visited Panama for a conference with the Government of Panama, and the Conference resulted in modification of certain features of the executive order which had occasioned the controversy. All import duties on goods entering the Canal Zone were rescinded and reciprocal trade relations established between the Zone and Panama. However, the delicate question which had been raised as to sovereignty in the Zone remained unchanged, a matter of treaty interpretation.

During the period while these negotiations were pending President Roosevelt addressed a letter to Secretary Taft in which he expressed the opinion that the

people of Panama were unduly alarmed on account of the steps which the United States had taken to provide for government in the Zone. This letter, dated October 19, 1904, reads in part as follows:

"There is ground for believing that in the execution of rights conferred by the treaty the people of Panama have been unduly alarmed at the effect of the establishment of a government in the Canal strip by the Commission. Apparently they fear lest the effect be to create out of part of their territory a competing and independent community which shall injuriously affect their revenues, and diminish their prestige as a nation."

....."We have not the slightest intention of establishing an independent colony in the middle of the State of Panama, or of exercising any greater governmental functions than are necessary to enable us conveniently and safely to construct, maintain and operate the canal under the rights given us by the treaty. Least of all do we desire to interfere with the business and prosperity of the people of Panama."

In the month following that in which this letter was written, Secretary Taft visited ~~President of Panama~~ Panama for the purpose of conferring with the authorities of the Republic upon the differences which had developed. Greeting the President of Panama on November 27, 1904, the Secretary said:

"The Government of the United States has no intention in being in this Isthmus to do other than to build a canal which shall connect the two oceans and thus bring great benefit, not only to your country, but to the United States and mankind. It has no desire to exercise any power except that which it deems necessary under the treaty to insure the building, maintenance, and protection of the canal."

In another statement made on the day following, Secretary Taft is reported as saying:

"I concur, and the Government of the United States concurs, in the construction that all these rights were given us solely for the purpose of enabling us to construct, maintain and operate the canal. It is not the motive that governed the conferring of these rights, but the extent of the rights necessary to enable us to secure this common object, that has been in controversy."

Inasmuch as the letter from President Roosevelt to Secretary Taft was written only six days before the letter upon the subject of sovereignty written by Secretary of State Hay to Mr. de Obaldia, Minister of Panama at Washington, the utterances of the President and Secretary of War cannot be construed as con-

flicting with the treaty interpretation of the Secretary of ~~the~~ State, but there was an evident desire to assure the people of Panama that in the exercise of its authority in the Zone the United States intended to act only as was deemed necessary to accomplish the ends specifically stated in the treaty.

#### The Commissaries (B)

Thus far the Commissaries have been the subject of more discussion than any other feature of the relations between Panama and the Zone. Article XIII of the treaty is as follows:

"The United States may import at any time into the said zone and auxiliary lands, free of custom duties, imposts, taxes, or other charges, and without any restrictions, any and all vessels, dredges, engines, cars, machinery, tools, explosives, materials, supplies, and other articles necessary and convenient in the construction, maintenance, operation, sanitation and protection of the canal and auxiliary works, and all provisions, medicines, clothing, supplies and other things necessary and convenient for the officers, employees, workmen and laborers in the service and employ of the United States and for their families. If any such articles are disposed of for use outside of the zone and auxiliary lands granted to the United States and within the territory of the Republic, they shall be subject to the same import or other duties as like articles imported under the laws of the Republic of Panama."

This article has been said to be the basis of the right of the United States to operate the commissaries in the Zone, but it is interpreted in the May letter as conferring the right to import into the Zone through the ports of Panama, which was necessary at the beginning of the Canal work, before docks were built in the Zone. The right to maintain commissaries and to import goods directly into the Zone is held by the United States to be inherent in the rights of sovereignty. Nevertheless, the language of Article XIII is held to constitute an agreement upon the propriety of maintaining commissaries for the purpose of serving the Canal employees and their families. Supplies are sold to passing ships as a part of the Canal service. The two hotels in Colon and Panama were operated primarily for the accommodation of Canal officials and employees, but the authorities have indicated a desire to retire from the hotel



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business whenever ample accommodations for the public are otherwise provided.

Complaints of competition with the business of Panama merchants have arisen mainly on account of commissary sales to parties not in the employ of the United States Government. We do not understand that the right of the United States Government to operate commissaries for the sale of goods to its own employees is in question. Therefore, whatever issue may be involved is a question of administration rather than of principle, and particularly of vigilance in defeating attempts to contravene the rules governing commissary sales. It has been customary to grant the commissary privilege to employees of contractors doing work for the United States in the Zone, and to a limited number of persons who in various ways render services to the Government of the Zone in the operation of the Canal. The Canal authorities affirm that the number of privileges issued outside of the regular force of employees is much exaggerated by common report, and that such instances are to be considered as in recognition of services, or, in a few instances, as acts of courtesy, and not as efforts to increase the volume of business done.

Our knowledge of the situation is not intimate enough to warrant our discussing the details, but it is obvious that the conditions are such as to make it very difficult, if not impossible, to prevent goods from the commissaries entering into Panama territory to some extent. Although the Canal Zone is controlled by the United States, the United States customs tariff does not apply to it. It is a strip of free trade territory bisecting the Republic of Panama. Furthermore, by the terms of an agreement between the United States and Panama, no customs officers or patrol are maintained by either country on the boundary between the Zone and Panama, but the Canal authorities cooperate with the Panama authorities to prevent the introduction of any goods into the Republic by way of the Canal without paying the proper duty.

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The commissary is free to purchase goods in the cheapest markets of the world, and as it systematically follows this policy and operates on a large scale, it may be supposed to have a low price-level which affords some inducement to illicit buying. No doubt it is true that to some extent persons entitled to the privilege buy for friends who are not, a practice which it is not easy to eradicate. As shown by the foregoing figures, two-thirds of the "silver" employees of the Zone live in Panama territory, and it has been thought that they do considerable trading with commissary goods, but it is noteworthy that the total "silver" payroll in 1933 was \$8,826,000, of which only \$2,880,000, or 42½ per cent was spent at the commissaries. From this it appears that the greater part of this payroll was expended in Panama, and in view of the number of these employees who live in the Zone and the fact that they are of the low-wage class, whose pay goes mainly for necessities, the proportion of expenditures at the commissaries does not seem unduly high.

That commissary goods are obtained by persons not entitled to the privilege no doubt is true, but we think this must be frankly attributed mainly to the fact that the Canal Zone is free trade territory, while the Republic maintains a customs tariff which places the merchants upon a higher cost basis. It is an old story that trade regulations which must be applied to thousands of people, and very informally at best, will be disregarded with more or less freedom if a financial inducement exists. Smuggling is as old as restrictions upon trade, never has been entirely suppressed anywhere, and buying goods at a commissary under cover of a friend is as fascinating as any other kind of smuggling, besides being easier than most kinds. We mention the subject chiefly for the purpose of saying that in our opinion the most effective remedy for it is lower

duties on imports into Panama, and furthermore that from every other viewpoint it is sound policy for Panama to maintain import duties at the lowest level that is consistent with the needs of her treasury for revenue. Our views upon this general subject have been expressed elsewhere.

We do not say that illicit commissary competition should be disregarded; the Zone should be a good neighbor to Panama in every respect and the authorities should be alive to prevent as fully as possible the abuse of the privileges which belong rightly only to United States employees. It is a subject for friendly conference on the part of the merchants or authorities of Panama and the authorities of the Zone, but should be discussed on the basis of tangible evidence rather than of general surmise or vague representations. We are impressed that the present authorities of the Zone are sincerely friendly to Panama and desirous of living up to the spirit of the treaty in all respects.

The Commissary competition is a matter of annoyance because the aggregate volume of business on the Isthmus is relatively small. If Panama City and Colon grow, become important distributing centers and the volume of trade increases in a substantial degree, commissary competition will be of comparatively insignificant importance. Lower import duties will help to accomplish all of this.

THE CANAL PORTS (A)

As described above, the Canal authorities have provided splendid port accommodations at both entrances of the Canal as part of the service which they offer to the shipping world. These entrances are natural meeting places for ships, and docks are needed to facilitate transshipments of cargo, also to allow ships to lie along shore for supplies and to unload and receive cargo. The Canal ports are more fully equipped to accommodate shipping than any ports in the Republic are likely to be for many years to come, and perhaps up to this time they have rendered all of the service to Panama business that there has been any call for, but they are not ports in Panama and cannot be expected to render all of the services which ports within the Republic might render.

A country which has ambitions for foreign trade, and especially for the class of trade which is not based upon home production but almost wholly upon services as a trader in the exports and imports of other countries, needs to have not only docks on the water fronts, but land adjacent for warehouses, assembling yards, facilities for breaking bulk, sorting, grading, re-packing, light manufacturing, etc. The Canal docks answer the purpose so far as loading and unloading facilities are concerned, but little more.

However, the Canal authorities have gone one step further, which is worthy of description in this connection.

"HOLD FOR ORDERS" SERVICE (B)

In March, 1926, the Panama Railroad Company operating the Canal docks in Cristobal and Balboa, put into effect what is known as its "Hold for Orders" service, which consists of allowing merchandise to remain in the dock warehouses for a period of thirty-five days without other charges than the

regular rates for inward and outward handling, with the privilege of reconsignment. In some cases, the shippers have agents in Colon to whom consignments are made, but goods may be consigned to the Panama Railroad Company, which will handle them in pursuance of subsequent orders.

The purpose of this innovation in regular dock service has been twofold: (1) to promote a distributing business direct from the docks, thereby increasing the volume of business over the docks by saving the costs incidental to removing incoming merchandise to a private warehouse and later returning the same to the docks for reshipment; and (2) to gain for the Isthmus the privilege of transshipment and reconsignment within a limited period on the basis of through rates, instead of on the basis of local rates in and out.

The privilege of reconsignment is explained in a pamphlet known as "Bill for Orders," issued by the Panama Railroad Company, when the policy was put into effect, as follows:

"Canal Zone for Orders" cargo may be destined Cristobal or Balboa, and later, if desired, reforwarded from the Isthmus -- each carrier to collect its proportion of the through rate to final destination instead of a combination of the local rates from points of origin to Cristobal or Balboa and from Cristobal or Balboa to destination."

This means that should a shipment move from New York to the Canal Zone, it will of course pay regular local rate to Balboa or Cristobal, as the case may be -- but should the owner wish to reforward to, say Guayaquil, he can do so by paying the oncarrier's proportion of the through rate. Upon evidence that the shipment or any part of it is moved beyond the Canal Zone, the initial carrier will refund the difference between the through and local rates."

The following steamship lines have made through billing arrangements with the Panama Railroad Company and the Panama Railroad Steamship Company upon the class of shipments described above:

United Fruit Company  
Panama Mail  
Grace Line  
New Orleans South America Line  
Navigazione Generale Italiana  
Cie. Generale Transatlantique  
Cia. Tras Atlantica de Barcelona  
Gulf Caribbean S.S. Co.  
Standard Fruit S.S. Co.  
Royal Netherlands S.S. Co.  
Royal Mail S. P. Co.  
Holland America Line  
Hamburg America Line  
Kosmos Line  
Noland Line  
Colombia Transport Co.  
Cia. Maritima de Colombia  
Cia. Nacional de Navegacion de Colombia  
Pacific Steam Navigation Company  
Chile Line (C.S.A. de V.)  
Peruvian Line (C.P.D.V.)  
Johnson Line  
Norway Pacific Line  
East Asiatic  
North German Lloyd  
North Pacific Coast Line  
Knutson Line  
Fred Olsen Line  
Elder & Ryffle  
Navigazione Libera Triestina

Under this system a manufacturer in the United States may keep a stock of goods on the Panama docks for prompt shipment in the Panama trade area, with a period of thirty-five days in which the turnover may be made, replenishing as sales are made. After thirty-five days a storage charge of three cents per ton per day is made.

The volume of "Hold for Orders" business doubled in 1928 over 1927, and is still increasing. Automobile manufacturers, shipping boxed cars, have been the leading users of the service and this indicates the possibility that they may find Colon a suitable location for assembling plants in case a Free Zone is established to serve such business, as suggested further on in this discussion.

The "Hold for Orders" service is also utilized by Colon and Panama City merchants to render bonded warehouse service, enabling them to with-

draw goods as wanted and avoiding the earlier payment of import duties.

This "Hold for Orders" service has been criticized as practically a beginning of merchandising in the Zone, or at least a service competitive with warehousing business outside of the Zone, and therefore raising a question of treaty interpretation. Probably this idea was suggested by newspaper announcements at the time the service was inaugurated, which stated that "for the present" no breaking of packages would be permitted on the piers, thus creating the impression that a larger service was contemplated later. There seems to have been no warrant as yet for this assumption.

It seems to us that insofar as "Hold for Orders" service accomplishes an economy in shipments which can be accomplished in no other way, it must be regarded as legitimate dock service, notwithstanding any limitations of the treaty upon business in the Zone. It is a sound proposition that facilities should be available for conducting business in the most economical manner. We do not think that either the United States or Panama should seek an interpretation of the treaty which will hamper the service of the Canal to international trade or the development of a trading center on the Isthmus. On the contrary, both countries, having entered into cooperation to open a trade route across the Isthmus, should continue cooperation in behalf of the trade route and also of the trade center now made possible at this location.

It is to be considered that to the extent that "Hold for Orders" service has developed a distributing business on the Isthmus, and been instrumental in gaining recognition for the principle of through rates on goods moving to and from the Isthmus as described, it has advanced the interests of all business located in Panama. Indeed, the fact that this concession upon freight rates has been gained by the influence of the Panama Railroad Steamship Line is proof of the importance of active cooperation on the part of the Canal authorities in all efforts for the development of international trade in Colon or Panama City.