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206A Panama Port Wanted (B)

It is obvious, however, that "Hold for Orders" business as conducted to this time is limited in scope and that the Canal authorities are not attempting to supply all of the facilities which a distributing business on the Isthmus will require. The Canal authorities thus far have held in general terms to the position that they do not want merchandising or manufacturing conducted on the docks or in the Zone, but the pressure for convenient facilities has induced them to relax the rule to the extent of permitting one automobile manufacturer to obtain such a position at Colon. This case seems to show the existence of a demand which the Canal authorities cannot satisfy without a change of general policy, and one which would raise the question of treaty interpretation.

Furthermore, this "Hold for Orders" business while temporarily desirable for the Canal docks, during the period when they have had floor space in excess of the requirements of their regular transshipment business, presumably is unremunerative if judged on the basis of the compensation it yields for expensive wharves, built over deep water.

The inaugural period of port service may be said now to be over, and the time has arrived for considering to what extent port services, such as the handling of transshipments, the reconsignment of goods, the taking of orders, the breaking up of bulk shipments, and other functions of a distributing trade-center, properly belong to the Canal organization, and how the cities of Panama may enter into this business.

According to the interpretation of the treaty apparently accepted heretofore by the United States Government, the latter's activities in the Zone are restricted to the maintenance, operation and defense of the Canal with such collateral activities as may be necessary to accomplish these purposes in an effective manner. President Roosevelt gave assurance to the people of Panama that the United States had no intention "to create out of a part of their terri-

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tory a competing and independent community,* and who will gainsay that he was in position to interpret the spirit of the negotiations with authority?

The "Hold for Orders" service, in which the Panama Railroad Company acts as forwarding agent for foreign shippers, may be defended on the ground that it is a service to trade which no one else has been in position to render, but ^{this} if/business is growing and likely to grow, and is properly a part of a general merchandising business which is not wanted in the Zone, why should it not be turned over to Panama as belonging properly to the ports and commercial life of that country? The "Hold for Orders" business is not large enough to be of importance in itself, and certainly is of slight importance to the Canal, but it is important as part of a business in the development of which Panama is very much concerned.

The people of Panama have cherished for a long time the belief that the geographical position of the Isthmus and the construction of the Canal provide the fundamental conditions necessary to make their two cities prosperous centers of trade, and they are anxious to supply all other conditions which will favor that end. Port facilities obviously are of great importance, and port facilities of the first class do not exist in Panama territory today. Furthermore, there are serious obstacles to obtaining them unless ready access can be had to the Canal or basins connected with the Canal. Only in such locations is deep water to be had with plenty of frontage and plenty of adjacent land for the business activities which naturally develop in an important port.

The wholesale distribution of merchandise in world trade is conducted upon narrow margins of profit and it is necessary that handling expenses in any market shall be kept low in order to compete successfully. For some classes of services, as for example, the handling of raw materials for manufacturing purposes, the location of yards or factory buildings a mile or more from the wharves might not involve prohibitive costs, or the costs might be offset by the advantages, but for many goods in transit the offset would be

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otherwise. For a general distributing business in foreign trade a location close enough to the wharves to permit the movement of goods by warehouse trucks is very desirable.

Difficulties of the Situation. (B)

As previous stated, all of the foreign trade of Panama now passes over the Canal docks. They are the only docks at which vessels engaged in foreign trade receive or deposit freight. On the Pacific side, Panama City faces a shallow bay, in which the tides have a variation of eighteen to twenty feet. Plans have been suggested for creating a deep harbor, but costs are prohibitive, reckoned against any volume of traffic that may be counted on for years to come.

Furthermore, it is improbable that ships passing through the Canal or having occasion to receive or deposit freight at the Balboa docks would make another landing at docks on the Panama waterfront without an extra charge which probably would be prohibitory. The natural port for vessels using the Canal is at Balboa.

On the Atlantic side the situation is more favorable for a port in Panama territory, for the Republic has a frontage on deep water inside of the breakwater, although the land and docks and buildings upon it are owned by the Panama Railroad Company. This is the dock property over which all traffic at Colon passed prior to the construction of the Canal and the new Canal docks. It is a serviceable dock, with approximately twenty-eight feet of water up to it, and more could be readily had by dredging, but it is now devoted to coastwise trade and rather completely occupied in this service. Other piers might be built on this waterfront, and there is reason to believe that the property may be purchased or leased from the Panama Railroad Company, but the area of land available for warehouses, factory sites, assembling plants and other purposes related to port activities is limited, the location being in the built-up business section of Colon. It might answer present purposes but probably would not be a permanent solution of the problem.

To sum up, the situation is that for convenience and economy the harbor, dock and warehouse facilities of any city on the Isthmus which aspires to foreign trade should be on the Canal or basins connected with the Canal, but nearly all the area suitable for such purposes is in the Zone. The United States is interested in the Canal, the growth of traffic, and even above every other consideration, in the protection of the Canal in the event of war. In order to have scope for its operations in "construction, maintenance, operation, sanitation and protection" it negotiated for the Zone five miles wide. It did not have in contemplation the development of a business community in the Zone, and is not concerned in an increase of population or of property values.

On the other hand, Panama is very much interested in the growth of industries, trade, population and property values in its territory, and believes that a great growth might occur if it had an eligible port for foreign trade.

Although the treaty provides for a Zone ten miles wide through the country, an exception necessarily was made of the two cities, without, however, any provision for frontage on the Canal. Apparently no account was taken of the fact that on the banks of the Canal, through which ships would be passing to and from all ports of the world, was a natural location for a commercial city. Moreover, there is but little available land in Colon other than what is built upon. As the situation stands, these conditions seem to determine that extensive port facilities on the Canal must be in Zone territory. So far as shipping accommodations for the exports and imports of Panama are concerned such facilities will serve the purpose, but if a commercial city is built up in the Zone by the development of foreign trade, even though merchants of Panama participate in the development, the city and its property values will not be in Panama. It will be what President Roosevelt referred to as a "competing community." The President's disclaimer unquestionably was

in perfect sincerity and good faith, but apparently nobody thought of such a probable development until after the treaty was executed. It does not follow of course that no benefits would be derived by Panama from the development of a commercial city in the Zone. More business and population in the Zone must be beneficial to the adjacent cities of Panama, but it will be still better to have the development in Panama territory if the port facilities can be had there.

At Porto Bello, some twenty-five miles from Colon, there is a good harbor, which was the principal Caribbean port of Panama until the Panama Railroad Company established its northern terminal at what is now known as Colon. At some future time it may be desirable to establish a port and city there, but at present the necessary expenditure hardly would be justified.

It appears therefore that the physical conditions and treaty conditions ~~and treaty conditions~~ together present a situation which does not lend itself to a ready solution of the port problem. If an alternative solution is practicable it must be through cooperation between the two Governments concerned.

A Port Corporation and Free Zone. (B)

Allowing that the vital question of location for a port or ports can be satisfactorily solved there are promising possibilities for the development of trade on the Isthmus. Given low handling costs, an important volume of business undoubtedly can be developed, how great only time and intelligent effort can determine. The growth is likely to be slow unless organized effort is put forth to spread information about the advantages which the Isthmus offers as a half-way house to

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many important markets. It is a long way from New York, Chicago or Boston to the west coast of South America or to the cities of Central American and northern South America, or to Australia and Asia, likewise a long water shipment to the Pacific Coast of North America, but in every case Panama is nearly or more than half way, and has more steamship service to any of these destinations than any one port of the United States or any one port of Europe. These conditions mark the Isthmian cities as strategic points from which orders may be expeditiously filled and therefore where stocks may be advantageously carried to secure prompt delivery.

How can this fact be brought home effectively to the great number of strong and enterprising manufacturing corporations in the United States that are now seeking a world market? Evidently an effort to that end should be organized and directed along business lines, first to provide facilities and service and then to make the advantages of the location known to whomsoever in the business world may be interested in utilizing them. This is a task for business men rather than for Government officials, but the Government of Panama may well be interested in the enterprise and lend aid in promoting it.

One important factor of the situation is the customs tariff on

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imported goods. We have made known our opinion that from every viewpoint it would be desirable for Panama to be a free trade country, if it could dispense with the revenues from import duties, and this is particularly important in relation to any attempt to develop a trading center for imported commodities. Such an attempt is wholly out of the question unless the commodities can be brought in and shipped out free of taxation, and with every possible facility to cheapen the handling costs. The drawback system permits a partial remission of duties, but it is a troublesome system everywhere and trouble means costs.

The Government of Panama is a long way from the financial position which it will need to hold in order to inaugurate complete Free Trade, but a Free Zone will answer the purpose in so far as foreign trade is concerned.

A Free Zone has furnished the means by which a number of countries which have not wanted to abolish import duties upon goods destined for domestic consumption have been able to do so in the case of goods which are re-exported, either in the same form as received or in changed form.

A lengthy explanation or description of a Free Zone need not be given here, but we quote at sufficient length to answer the present purpose, from a definition given by the United States Tariff Commission: (See Senate document 269, 67th Congress 2nd. Session).

A free zone may be defined as an isolated, inclosed, and policed area, in or adjacent to a port of entry, without resident population, furnished with the necessary facilities for lading and unlading, for supplying fuel and ship's stores for storing goods and for reshipping them by land and water; an area within which goods may be landed, stored, mixed, blended, repacked, manufactured, and reshipped without payment of duties and without the intervention of customs officials. It is subject equally with adjacent regions to all the laws relating to public health, vessel inspection, postal service, labor conditions, immigration, and indeed everything except the customs.

The purpose of the free zone is to encourage and expedite that part of a nation's foreign trade which its government wishes to free from the restrictions necessitated by customs duties. In other words, it aims to foster the dealing in foreign goods that are imported, not for domestic consumption, but for re-export to foreign markets, and for conditioning, or for combining with domestic production previous to export."

A Free Zone represents the principle of the bonded warehouse, but as indicated in the above definition, contemplates the possibility of a wider scope of activities. How fast the other activities will develop must be a matter of opinion until a trial is made. The plan has been notably successful in a number of instances.

The most famous Free Zone in the world is that of Hamburg. Germany maintains a general customs tariff, in fact, is distinctly a protectionist country, but when the German Empire was formed, Hamburg which had been a free city since medieval times, consented to join only upon the condition that its foreign trade might be exempted from the operations of the customs tariff. This was accomplished by setting apart an area of the harbor and adjacent land and docks as a Free Zone within which foreign trade might be carried on with as much freedom as though outside of Germany. Hamburg has prospered greatly by reason of these Free Zone facilities and particularly with the growth of German trade in the twenty-five years preceding the Great War. Formerly, it was almost wholly a port of transshipment; that is, a port where ships met and goods were transferred practically intact, but in the period named the sorting, grading, classifying and manipulation of goods, even to the point of manufacturing imported materials into goods for export, has been the outstanding feature of its activities. Ten thousand employees are said to have regular work in the Free Zone of Hamburg. Before the War, among the seaports of Europe, Hamburg was second only to London in volume of foreign trade, and London was a free port practically in the full sense.

The prosperity of Hamburg, and the evident fact that the Free Zone was a factor in it, caused the neighboring city of Copenhagen to establish a Free Zone in 1692, and the success of Copenhagen caused Stockholm to do likewise. In recent years two other ports of Sweden, Gothenburg and Malmo, have provided like facilities.

In all of the cities named, the Free Zones are controlled and managed by joint stock corporations, to whom charters were granted for the purpose, the municipalities sharing in the ownership or the profits, as agreed in each case. It is the usual practice, followed we believe in each of the instances named, that the municipality or national government provides the physical plant, land, docks, buildings, etc., or lends its credit for this purpose, in compensation for which it receives stock in the corporation or a stated share of the net earnings. Such an arrangement facilitates the forming of a Port Corporation, because while individuals may hesitate to tie up their capital in a new venture of this kind, there is little risk of loss to a municipality or a nation in owning choice harbor property in its own territory. Such property always will have a vital relation to the port and nation.

The advantages of having the facilities of a Port managed by business men is that they go after the business, know how to get it and are able to handle the business with greater flexibility and at lower costs than is likely to be the case if the business is conducted simply as a governmental function. A Port Corporation becomes an efficient agent in promoting foreign trade in all possible ways, including negotiations for shipping service and the adjustment of shipping rates, both matters of vital concern to the cities of Panama.

Revenues May be Increased (B)

The importance of having the Government interested in the Port Corporation,

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as well as of having the management in the hands of a private corporation, is many-sided. It is notorious that the customs laws of Panama have been loosely administered in the past, and the revenues have suffered seriously from the lack of proper facilities for examining merchandise and probably from dishonesty within the service as well as by frauds perpetrated upon it. The Port Corporation should collect all import duties, thus removing this branch of the public service from political control and exploitation. It is probable that the increased income to the Treasury would more than cover the charge upon the Treasury resulting from its interest in the Port Corporation. We are confident that the Treasury would be a gainer by a substantial amount.

The Government's investment in dock and warehouse property would be protected by the fact that it has the power to require that all imports into the Republic and exports therefrom shall pass over or through its own property. The primary purpose, however, is that of creating a port in the Republic which will be an active agency for the development of trade.

Available Areas (B)

As heretofore stated, water-front property in the Republic exists in Colon upon which port facilities could be created that would be sufficient for some time to come, and afford a trial of what a Free Zone and Port Corporation could accomplish. There remains of course the question of obtaining the property. The Panama Railroad Company apparently no longer has use for it, and it seems probable that representations that the Government of the Republic desired to obtain it by lease and ultimately in fee, would be received in a hospitable spirit. We have no definite information either as to this or the terms obtainable. Furthermore, it would be desirable to have a trustworthy estimate as to the amount of expenditure which would

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be necessary to equip the property to handle the business likely to come to it. The terms upon which a Port Corporation may be formed, and the necessary capital obtained also can be known only as the result of inquiry and negotiations. We are unable, therefore, to make a more definite recommendation on the subject.

In Panama City the opportunity to establish a Free Zone on deep water does not exist at present, and it would have to be located at some distance from the Canal harbor. The Atlantic end of the Canal, however, is now the point where transshipments usually occur. The ships exclusively in the Pacific trade pass through the Canal to meet the ships which confine themselves to the Atlantic area. For this reason the volume of freight handled on the canal docks at Cristobal is about ten times that handled at Balboa.

Possible Competition (B)

It has been suggested that the creation of port facilities under new auspices and in Panamanian territory might result in rivalry and competition with the docks of the Canal, as commonly happens where private interests come in conflict, and that this being true there would be little chance of success for the new enterprise against the resources of the United States Government. It is obviously true that any uncertainty as to the attitude of the United States authorities toward the new project would be a serious obstacle.

With some allowance for the natural zeal of officials charged with the management of the auxiliary services conducted by the Canal Administration, we find nothing in the record of responsible officials in the Zone or at Washington leading us to give weight to the theory that the United States desires to carry on any business in the Canal Zone beyond that which is

deemed necessary to efficiently maintain, operate and protect the Canal, with the supplementary but necessary purposes of maintaining sanitation and furnishing supplies to its employees, as provided for in the treaty.

It is, however, a matter of importance that Panama shall know to a certainty what the policy of the United States regarding activities in the Zone is to be, and that if possible an understanding for a policy of friendly cooperation in the development of port facilities may be reached.

Shipping Facilities. (B)

The strategic position of the Republic of Panama at one of the crossroads of the world, is illustrated by an enumeration of the nineteen principal trade routes which pass through the Canal and of the commercial shipping lines that are operating ships regularly, or fairly regularly, through the Panama Canal, together with lines operating ships to the terminal ports but not through the Canal. Many vessels other than those employed by these lines pass through the Canal in regular service. This list is published by the Panama Canal authorities:

Routes and Lines (C)

1. Atlantic Coast of United States -- Pacific Coast of South America, 16 lines.
2. Europe -- Pacific Coast of South America - 17 lines.
3. Colombian Intercoastal - 1 line.
4. Around South America - 6 lines.
5. Pacific Coast of North America - Atlantic Coast of South America - number of lines not given.
6. Europe - Pacific Coast of Central America - 5 lines.
7. Europe - Pacific Coast of North America - 18 lines.
8. Atlantic termini of Canal - Pacific Coast of South America - 7 lines.
9. Atlantic terminus of Canal - Pacific Coast of Central and North America - 3 lines.

10. Atlantic Coast of United States - Japan, China, Siberia and Philippine Islands - 18 lines.
11. Atlantic Coast of North America - Australia and New Zealand - 6 lines.
12. Europe - Australia and New Zealand - 6 lines.
13. Europe - Far East - 2 lines.
14. Around the world - 4 lines.
15. United States intercoastal - 20 lines
16. Canada Intercoastal - 2 lines.
17. Columbia Atlantic - Pacific - 1 line.
18. Atlantic service calling at Cristobal but not passing through the Canal - 19 lines.
19. Pacific services calling at Balboa but not passing through the Canal - 2 lines.

Distances between Panama and the following ports of the World (Nautical Miles)

Antwerp - - - -	4,822
Boston - - - -	2,213
Bremene - - - -	5,071
Cape Town - - -	6,450
Genoa - - - - -	5,224
Hamburg - - - -	5,089
Havana - - - - -	1,027
Havre - - - - -	4,643
HongKong - - - -	4,570
London - - - - -	4,782
Melbourne - - -	-7,949
New Orleans - -	-1,420
New York - - - -	2,012
Rio de Janeiro -	4,268
San Francisco -	-3,277
Shanghai - - - -	8,672
Southampton - -	-4,603
Valparaiso - - -	-7,702

FISCAL SECTION

THE REPUBLIC OF PANAMA

FISCAL SECTION

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Scope of the Report

This section is devoted to a survey of the fiscal affairs of the government and the organization and operation of its current business activities. It presents a program for reforming the budgetary and accounting procedure of the government and offers suggestions for reorganizing the government departments and improving the efficiency of their business methods. The fiscal section also contains an analysis of the sources of Panama's revenues and a detailed discussion by departments of present expenditures.

At the end of the Report will be found a list of specific and detailed recommendations but they are summarized here as follows:

1. Adoption of a new law providing for the establishment of a sound budgetary procedure.
2. Adoption of a new law providing for the establishment of a Comptroller General's office.
3. Installation of an accounting system which will assure an accurate control of all government funds and property.
4. Regrouping of the government activities according to their functions.
5. Reform of the Civil Service through adoption of a modified Civil Service law.
6. Reorganization of the government's purchasing system and methods of contracting for supplies and materials.

7. Revision of the revenue system including the substitution of specific for ad valorem duties, and a gradual reduction of import duties as the revenues from other sources of taxation are increased because of revised rates and improved collection methods and as revenues become available from new sources of taxation.

8. A decided curtailment of government expenditures to bring them within present estimated receipts.

A brief sketch of the general form and organization of the Government of the Republic of Panama and a resume of its financial history will be a fitting introduction to a study of its current fiscal and governmental problems.

Organization of the Government (A)

In general form the organization of the National Government is similar to that of the Government of the United States, being divided into three coordinate branches: Executive, Legislative and Judicial.

The organic law of the Republic of Panama is embodied in the Constitution, adopted February 15, 1904.

The Executive Power is vested in the President. He is elected by popular vote for a term of four years. There is no vice-president, but the National Assembly elects three designates every two years who take the place of the President in their respective order in the event of his absence, disability or death.

There are five executive departments as follows: 1) Government and Justice; 2) Foreign Relations; 3) Treasury and Finance; 4) Public Instruction; and 5) Agriculture and Public Works. (*) The Secretaries of these five Departments are appointed by the President; they form his Cabinet and advise

(*) An outline of the organization and functions of the several Departments may be found in the appendix.

with him on all matters connected with the administration of the Government. As the Heads of the Departments they carry out the President's policies and the laws enacted by the National Assembly.

The legislative power is vested in the National Assembly or House of Deputies. This is composed at present of forty-six deputies elected by direct vote of the people for a term of four years. There is one deputy for each 10,000 inhabitants or fraction of 5,000 or more. The Assembly convenes in regular session in the City of Panama every two years on September first for a period of ninety days. At the expiration of that time the body may extend the session for a further period of thirty days if it finds that there is further legislative business which requires attention. The President also has the power to call the Assembly into extraordinary session if he believes it to be in the public interest.

The Assembly is authorized to enact laws for the government of the Nation, to approve the budget, to establish customs duties, taxes and revenues, to pass upon the qualification of its own members, and other functions usually assigned in a republic to the legislative branch of the government.

The judicial branch of the government consists of the Supreme Court, one Superior Court, Circuit Courts and Municipal courts.

The Republic of Panama is divided into nine political sub-divisions: Bocas del Toro, Cocolé, Colon, Chiriquí, Darién, Herrera, Los Santos, Panama and Veraguas. A special section of the country bordering the Atlantic Ocean east of Colon known as the Intendencia de San Blas has been set aside as a reservation for the San Blas Indians. Each of the provinces is divided into municipalities or districts which have as their chief executive a mayor or alcalde who is appointed and paid by the national government. Each municipal district has a local law-making body known as the municipal council (Consejo Municipal) which has the power to pass local ordinances and disposi-

tions for the government of the municipality and to levy taxes within certain narrow limits as determined by the National government.

As an illustration of the high degree of centralization of all government functions in the National Government it is interesting to note that the total budget of the largest city in the Republic, the City of Panama, of about 65,000 inhabitants, is only about 225,000 Balboas (*) a year. The aggregate budgets of all the municipalities in the country is less than 500,000 balboas a year.

HISTORY OF ORDINARY GOVERNMENT RECEIPTS AND EXPENDITURES (A)

Finances of the New Government (1904-1914) (B)

The finances of Panama were given a good start at the beginning of the nation's career by the terms of the treaty with the United States. Not only did the treaty afford a guaranty of the independence of Panama, thereby assuring independence without war, but two considerable assets were placed immediately in sight, one available forthwith, and the other in nine years. They were, in the first instance, the substantial sum of ten million dollars, received in payment for the grant to the United States in perpetuity of the right of way for the ship ^{canal} etc.. and, second, the annual sum of \$250,000 to be paid during the life of the Canal convention, beginning nine years after its date. Said treaty was signed by the duly accredited representatives of the two countries in Washington on November 18, 1903, and subsequently ratified by the respective Governments in Panama on December 2, 1903 and in Washington on February 26, 1904.

Of the ten million dollars received in accordance with this convention, the Republic of Panama set aside six million dollars and established what is known as the "Constitutional Fund," which has been invested in first mortgages on real estate in the City of New York. This action proved to be advantageous

(*) One Balboa is equivalent to one dollar United States Currency.

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for Panama since not only has the investment yielded regular returns, but it provided excellent security for national loans subsequently negotiated for public works. In the last nine years the annual income from these investments has averaged \$312,419. The remaining four million dollars of the ten million dollar treaty payment was kept on hand as ready money to finance the young Government in the early years of its career.

Little information is available in regard to income and expenditures prior to 1907. Even after 1907 we have only the estimates of revenues and expenditures as indicated by the several budgets. Actual cash disbursements and receipts never have been tabulated. The amount of supplemental appropriations and extraordinary credits which may have been established is unknown. However, the annexed table of budget estimates of receipts and expenditures (Table No. 2 Appendix) will give a fairly accurate approximation of the expenditures of the Republic at that time.

Panama's Finances During the World War Period (1914-1918) (B)

The year 1914 marked a change in the affairs of the Republic. Not only was it the date of the first Canal annuity payment and the date of Panama's first foreign loan, it was the year of the opening of the Great War. Between 1914 and the year when the first Fiscal Agent was appointed, 1919, Panama passed through the distressing financial experience common in those momentous years to all the civilized world. The Great War caused a decline of revenues. Commercial activity was paralyzed in nearly all the industrial nations of Europe. From the time that the United States of America went into the war in April 1917 until near the end of 1918, the revenues of Panama suffered the economic effects of that disaster. The interruption of commerce seriously lessened the import duties, the principal source of Panama's national income.

These conditions are reflected in the attached statements (Tables Nos. 2 to No. 7). It will be noted from the comparative budget statement (Table No. 7)

that for the biennium 1915-1916 the budget was based on an expectation of revenues amounting to P.10,955,600.00. However, owing to the general financial depression characteristic of this period the actual revenues collected amounted only to approximately P8,500,000.00. This necessitated a drastic downward revision of the budget, a reform all the more necessary because, during the biennium just proceeding this slump in revenues, the expenditures had been in excess of the receipts by about P.400,000. For several years the country's financial distress was acute. By 1918 the Treasury was in a truly critical state. The payment of salaries in many cases was several months in arrears, with the result that government employees were obliged to sell their claims to money-lenders at exorbitant discounts; and local merchants refused to accept orders for supplies from the government unless accompanied by cash. As Treasury accounts were decentralized, there was no adequate accounting control of the financial transactions of the government, and it was impossible to determine with any degree of accuracy the real condition of the Treasury.

Appointment of Fiscal Agent (1919) (B)

Toward the end of the year 1918 the situation became so critical that a complete collapse was ~~imminently~~ imminent unless drastic measures of reform were adopted. Realizing the situation, the Assembly on December 30, 1918, passed a law (No. 39) which authorized the appointment of an official to be known as Fiscal Agent, with duties substantially those of Comptroller of accounts and adviser to the President in financial affairs. The law expressly provided that the Fiscal Agent was not required to be a citizen of the country, and the President named as the occupant of the office, a citizen of the United States, Mr. A. T. Ruan, who had had experience in similar positions ^{of trust} under the Government of the United States, in the Philippine Islands and in Haiti. Mr. Ruan, with the approval of the President and the cooperation of the Secretary of Finance, effected important changes in the organization

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and methods of the Treasury and in the general accounting system.

Under the old system the Government maintained its own depositories, consisting of a General Treasury at the seat of Government and sub-treasuries in the provinces. The system may have been modeled after the Treasury system of the United States as it was when the Government of Panama was established. It was a costly system and in Panama contributed to a lack of effective central control over the collection and disbursement of Treasury funds. Under the new system the sub-treasuries were abolished and the Treasury ceased to handle cash, by virtue of a contract entered into with the International Banking Corporation, of the United States, which then was doing business in Panama. The International Banking Corporation, through its office in the Capital and branches in the provinces, became the Government depositary and assumed the custody of all funds. All revenues were paid into the Bank and all disbursements were made by check on the Bank. It was required that all such checks should be signed by both the Secretary of Finance and the Fiscal Agent, or their respective designates. Afterward the banking business of the Government was transferred from the International Banking Corporation to the Banco Nacional, an institution the stock of which is owned by the Government.

When the first Fiscal Agent took up his duties current Treasury obligations outstanding amounted to approximately B.1,000,000, while the cash on hand was but slightly over B.2,000. The public debt was B.7,000,000. The Fiscal Agent effected numerous reforms in departmental practices in addition to the reorganization already referred to, and made a record of conscientious and efficient administration. The improved methods inaugurated by him should be recognized as an important factor in the rehabilitation of the public finances and credit which occurred during his term of office.

However, a revival of the revenues following the end of the world war in November, 1918, changed the situation very much. Business revived, com-

Financial Depression (1921-1923)(B)

Of the increased expenditures approximately B.S. 300,000 was for capital purposes, mostly new road construction. The increase in ordinary expenses was about a million and a half belbeas. The money accumulated during the biennium of 1919 - 1921 had been absorbed in the road work. ~~Before 1922 was~~

~~ever in the United States~~ Before 1922 was over it was