

STATEMENT OF REVENUES, REPUBLIC OF PANAMA, FISCAL YEAR 1921 TO 1928

	<u>1921</u>	<u>1922</u>	<u>1923</u>	<u>1924</u>	<u>1925</u>	<u>1926</u>	<u>1927</u>	<u>1928</u>
CUSTOMS REVENUES								
IMPORT DUTIES	8,249,028.77	1,881,001.23	1,866,849.02	2,192,553.73	2,689,085.14	2,716,845.54	2,851,560.26	3,039,111.14
EXPORT DUTIES	70,645.15	85,522.49	73,300.49	77,223.12	80,172.20	76,668.59	71,303.44	72,460.56
CONSULAR FEES	206,278.61	158,050.55	155,341.90	181,163.01	220,764.84	381,137.68	387,013.48	430,022.74
TOTAL -	8,270,952.53	2,124,583.27	2,095,491.41	2,450,939.86	2,989,922.18	3,174,646.81	3,309,877.18	3,541,600.44
PUBLIC SERVICES								
POST OFFICE	74,922.38	81,100.06	73,706.03	62,415.40	49,122.00	41,790.13	56,365.24	59,491.30
TELEGRAPHS	41,904.59	39,943.03	38,019.19	37,506.12	51,240.69	52,540.59	49,551.28	51,527.03
TOTAL -	116,916.97	121,052.99	111,815.22	100,921.52	100,371.75	94,339.72	105,916.52	111,018.33
TAXES AND OTHER								
INTERNAL REVENUES								
PRODUCTION OF BEER & LIQUORS	677,410.68	571,753.51	533,126.24	550,955.64	591,433.14	590,372.98	660,931.14	874,961.30
RETAIL SALE OF LIQUORS	619,084.90	583,132.89	504,608.25	511,969.50	540,513.07	579,110.99	595,507.11	603,681.40
LOTTERY	286,958.34	296,660.32	309,671.06	322,942.71	398,655.31	451,260.74	488,614.65	527,871.27
REAL PROPERTY TAX	105,693.72	154,244.30	124,797.71	173,581.68	102,447.97	176,076.50	354,210.66	353,197.10
SLAUGHTER TAX	189,730.05	202,312.87	213,353.46	210,233.97	232,825.97	250,795.97	231,323.49	231,249.40
STAMPED PAPER AND NATIONAL STAMPS	262,092.92	216,449.07	190,820.52	243,510.73	300,456.71	241,370.03	267,922.36	271,402.38
GASOLINE TAX						92,398.49	92,363.64	217,193.07
MARKETS AND WHARVES	88,966.93	103,320.54	101,000.04	117,335.50	133,070.70	153,448.35	130,291.11	125,391.11
MISCELLANEOUS	369,828.67	364,946.73	401,211.10	412,389.38	556,136.50	442,711.58	544,238.01	381,709.16
TOTAL -	2,599,766.16	2,491,809.18	2,378,976.06	2,549,680.00	2,800,548.37	2,975,345.63	3,361,402.17	3,586,640.00
MISCELLANEOUS REVENUES								
CANAL ANNUITY	50,000.00	50,741.39	440,538.61	50,000.00	50,000.00	50,000.00	50,000.00	50,000.00
INTEREST ON \$6,000,000	34,384.19	34,989.59	329,200.64	331,744.30	314,896.44	311,397.27	280,068.34	293,600.00
TOTAL -	54,384.19	364,730.98	769,579.25	581,744.30	564,896.44	561,397.27	530,068.34	543,600.00
	4,058,018.85	5,109,196.42	5,355,562.02	5,689,213.74	6,515,338.63	6,806,729.43	7,308,264.21	7,784,939.60

depression. Between 1922 and 1928, the annual revenues increased B.2,681,743.18, from B.5,103,196.42 to B.7,784,939.60. The revenues for 1929 will probably exceed B.8,000,000.00, which is the highest figure yet reached. These increased receipts were to some extent due to the revival in business activity subsequent to 1923, but a more important factor was the general revision in the tax structure which occurred in 1925. In that year the ad valorem duty on a number of commodities was increased from 10 to 15 per cent, the specific duty on liquor was increased 20 per cent, and a number of articles were transferred from ad valorem to the specific list with increases in duty. Consular fees were raised at the same time from .9 per cent to 2 per cent.

A number of changes were also made in the internal tax structure in 1925. The most important of these related to the taxes on liquors and on real property. In both cases the method of taxation was changed, and the taxes were increased. The so-called liquor impost was abandoned in favor of a stamp tax, and a tax on the value of real property was substituted for the tax on its income.

In the following pages the more important taxes will be discussed in some detail with reference to the methods of collection and possible changes in the law. On the whole, it may be said that present methods are subject to considerable improvement, and a number of concrete suggestions will be offered with this purpose in mind. A strict enforcement of the present tax laws should result in a considerable increase in the revenues of the Republic. (*)

The Customs Revenues and System of Collection (B)

The following table shows the distribution of the import duties for the

(*) A discussion of postal and telegraph revenues will be found in another section of this Report.

fiscal years 1927 and 1928,--

	1927	1928
Ad Valorem duties	B.1,388,034.32	B.1,428,421.80
Specific duties	1,195,448.54	1,323,815.36
Parcel post duties	268,197.40	286,873.98
Consular fees	387,013.48	432,028.74
	<u>B.3,238,693.74</u>	<u>B.3,471,139.88</u>

In view of the important place occupied by import duties in the national revenue system, careful attention has been given to these duties and also to the organization and methods of the customs service. The schedule is designed for revenue purposes, but in a few instances a rate has been established with a view to protecting an industry of the country. The outstanding feature is a blanket ad valorem tariff of 15 per cent on all articles entering the country with the exception of approximately fifty articles on which specific rates are charged and five items which, besides the usual public policy exemptions, are on the free list. A new schedule should be prepared, after a careful study of the present rates and of the character and volume of entries. Consideration should be given (1) to placing on the free list or applying a nominal tariff to articles of prime necessity to the great mass of the people, particularly foodstuffs which the country cannot itself produce; (2) to retaining for the purpose of stimulating industry a tariff on agricultural products which can be raised in the country and on articles manufactured from native raw materials; and (3) to fixing the duties on luxuries in accordance with the principle of what the traffic will bear.

Specific duties should form the basis of the revised tariff schedule, ad valorem items being included only for articles to which specific rates cannot be applied practically. Experience in tariff administration has proven that a system of specific duties has several advantages over the ad valorem plan, namely, (1) it is more easily administered; (2) it contributes toward more certainty and uniformity in the imposition of custom duties, and (3) it lessens

the chances of success for unscrupulous importers.

Difficulty is experienced in the administration of an ad valorem schedule even under the best of conditions, for the proper determination of the duty on any importation is dependent upon an accurate appraisal. Commodity appraisement is a highly specialized individual service, and in large countries where importations are received in great volume individual appraisers cover a very limited group of related commodities. The effectiveness of the administration of an ad valorem tariff may be said to be in direct ratio to the adequacy and efficiency of the appraisal force. It follows that when, as in the case of the City of Panama, all importations through that port, (which handles approximately sixty per cent of the entire country's imports), are appraised by a single person, anyone may be pardoned for questioning the accuracy of the appraisals as a whole. The investigator cannot escape the conviction that prices indicated in commercial invoices and importers' declarations are accepted generally as the basis for the calculation of the duty. It is not intended to reflect in this statement on the integrity or the ability of the appraiser of this port, but only to make clear the fact that an effective administration of the customs tariff cannot be hoped for in the Republic of Panama under an ad valorem schedule when the volume of business is so small as to require only one or two appraisers at a port; for these men cannot conceivably be familiar with the qualities and prices of the thousand kinds of commodities which enter the port monthly.

In the case of a specific schedule the commodities are classified and the rates fixed by specialists after due consideration of the various economic factors involved. The task of administration resolves itself then into the proper determination of the classification in the schedule which is applicable to a particular commodity. This, however, does not mean that a specific schedule operates automatically. It will still be necessary to have quali-

fied appraisers, familiar with materials; but a comprehensive classification of commodities will practically eliminate the guess-work in appraisal, while the establishment of specific rates, except in a few instances, will reduce to a minimum the number of commodities with the prices of which in various markets the appraisers will have to be familiar.

A specific tariff schedule will also lessen the chances of success for dishonest importers. Such individuals defraud the Government by having understated in the commercial and consular invoices the prices of what they import. Since the appraisers cannot possibly be familiar with the values of all commodities, there is a fair chance that an understated valuation will pass without being detected. In so far as duties are made specific, the prices of commodities will, of course, no longer be a factor in the determination of the duty on the majority of importations.

Organization of the Customs Service. (B)

At the present time the various functions of this service are distributed among a number of individual offices and there is no central control of their activities except such as is exercised incidentally by the Seccion de Ingresos of the Department of Finance and Treasury in its audit of liquidations. The appraisers and liquidators at the various ports and in the post offices are virtually independent officials and the same is true of the port captains of the Resguardo Nacional (National Customs). The remedy for this situation is to consolidate in one bureau all functions connected with the collection of customs duties and to place them under an Administrator General of Customs. If the customs service of the Republic is to attain a maximum efficiency, the first step necessary is to appoint a well qualified man to this position and give him a free hand in consolidating and reorganizing the present service.

Perhaps the most glaring defect in the present system is to be found in the method of appraising the value of imports. Complete and accurate appraisal is especially important under a tariff schedule which provides one half of the customs revenue from ad valorem duties. At present only a part of the merchandise is actually examined by the appraisers, and consequently in many instances the appraisal amounts to little more than a comparison of the declaration with the consular invoice and the bill of lading. Imports on which specific duties are levied should be counted, weighed or gauged according to the nature of the commodity. Imports subject to ad valorem duties should be examined and appraised with special care, because we have reason to believe that in many cases they are now undervalued. In this connection the liquidation form should provide a column for classification of merchandise with a statement of the paragraph of the law under ^{which} the classification falls.

The appraisers of Panama and Colon are undoubtedly overworked, and, even if they so desired, it would be a physical impossibility for them to examine the large volume of imports which enter their ports. Furthermore, the government warehouses at both of these places are totally inadequate for customs purposes. Not only are they too small but they are insecure for the storage of valuable merchandise. It is therefore recommended that new customs houses be constructed at Panama and Colon adjoining the railroad station. These buildings should be large enough to serve as bonded warehouses for the storage of all merchandise now held in bond. This will make possible the abolition of the private bonded warehouses which are difficult to control even under the most favorable conditions.

There are customs guards at the various ports whose duty it is to prevent smuggling. The Canal Zone customs service also co-operates with the Republic to this end by retaining custody of all merchandise discharged at

Cristobal and Balboa and destined to persons and firms in Panama until submission of the necessary papers from Panaman officials shows that the duty has been paid. But there is no organized effort to prevent or detect such frauds as are perpetrated in the course of a transaction, especially the undervaluation of imports. There is little doubt that considerable revenue is lost on this account at the present time, although it is impossible to make an estimate of the exact amount. In our opinion a small force of inspectors should therefore be provided for the prevention of such frauds on the customs revenue as false declaration upon entry of merchandise, illegal withdrawal of merchandise from bonded warehouses, and for the investigation of drawback claims and allowances and bribing of customs officers. The authority of these inspectors should also cover smuggling.

The inspectors might also serve as instructors of the customs appraisers and liquidators. These latter officials constitute the most important unit in the customs service, since they must examine and classify, for the purpose of collecting the customs duties, all merchandise entering the country. Inexperienced or otherwise inefficient appraisers and liquidators may easily cause a serious diminution in the customs revenue. In order that the work of examination and appraisal may be performed efficiently, appraisers and liquidators must be trained technically both in the mercantile arts and in customs law and procedure. And officials possessing these qualifications should be adequately compensated for the important duties which they must perform.

As a first step in the instruction of customs officers, a complete set of rules and regulations should be published in one volume. Decisions of the Secretary of Finance and Treasury on appeal cases should also be published weekly and distributed to all custom houses in the Republic.

Internal Revenues (B)

Organization (C)

At the present time there is no centralized organization for the collection

of the internal revenues of the country. The administration of the liquor tax is entrusted to the Administracion del Impuesto de Licores, which is also responsible for the operation of markets and wharves and the enforcement of the stamp taxes. The real estate tax is assessed by another section of the Department of Finance and Treasury called the Direccion General de Catastro. The Seccion de Ingresos administers a number of miscellaneous taxes including those on gasoline, inheritances, pearl fisheries, mines, exchange houses, and steamship companies.

Effective administration of the various internal taxes requires adequately centralized control. It is, therefore, recommended that these three divisions of the Department of Finance and Treasury be consolidated into one Bureau of Internal Revenue in charge of an Administrator General. The man chosen for this important position should have a thorough knowledge of taxation principles and methods and should possess demonstrated executive ability. He should be given the power to appoint or dismiss any official in his service subject only to the approval of the President and to introduce any changes in organization and methods which he may consider necessary. Only in this way will it be possible to secure adequate direction and control of the internal tax administration of the Republic.

Liquor Taxes. (C)

The various taxes on the manufacture and sale of liquor are the largest single source of internal revenue in the Republic. In the fiscal year 1928 they represented total collections of B.1,478,641.57 which was 41 per cent of the internal revenue for one year.

A thorough examination of the administration of the liquor taxes would require more time than we could give to it, but our survey indicates that considerable revenue from this source is now lost to the Government, and could be recovered by proper enforcement of the law. To achieve this end the

liquor administration must be divorced from politics. As a first step in this direction the present force of inspectors should be reorganized from top to bottom. Incompetent members of the force and members of questionable associations should be dismissed and replaced by inspectors whose diligence and fidelity are above question, and at salaries which will make it possible for them to live decent lives and resist the temptations to which they may be subjected by unscrupulous manufacturers. And finally, violators of the liquor laws should be prosecuted vigorously no matter what influence they may be able to command. If such a program is adopted and put into effect, there is little doubt that the revenue from the liquor taxes will be increased appreciably.

The system which has been adopted for the control of the manufacture and sale of liquors seems to embody all the essential elements for the protection of the revenue, provided it is properly enforced. No distillery or factory is allowed to operate without a permit and an inspector is assigned to every plant. All alcohol is measured by sealed meters and none of it can be withdrawn from the government warehouse until it has been rectified and the tax paid. Finally the manufactured liquor is not permitted to leave the factory until stamps have been affixed to the bottles and cancelled by the inspector. Detailed records of manufacture and sale are required in all cases and periodical reports must be submitted to the headquarters office of the liquor administration. It is probable that this system could be simplified and improved in a number of details, but, in general, it seems adequate for the purpose which it is intended to serve.

One improvement which suggests itself is the transfer of the rectification plant, which is now an independent unit, to the new Bureau of Internal Revenue. In this way a better control will be secured of the alcohol in its passage from the government warehouse to the rectification plant and back again to the warehouse.

The only specific suggestion which we have to offer in connection with the tax on establishments which sell liquor at retail is that the tax be collected in advance and quarterly instead of monthly. This will reduce considerably the work of collecting this tax not only in the liquor administration office but also in the Banco Nacional and the Office of the Fiscal Agent.

Real Property Tax (Immuebles) (B)

The responsibility for the appraisal of real property should be centralized under the control of the Bureau of Internal Revenue by transfer to it of the Direction de Catastro. The Bureau of Internal Revenue should also be empowered to acquire the assistance of existing agencies throughout the Republic and to employ such experts as may be necessary for the purpose of appraising lands and buildings because this is a task which requires expert professional qualifications. The Government should therefore appoint to the responsible positions of assessor only men of high character and broad experience and should pay them salaries commensurate with the technical and administrative qualifications demanded. If given sufficient authority and proper backing such men should be able to perform their duties unhampered by local or partisan influences.

The tax on land and buildings is second only to the liquor taxes as a source of internal revenue. In the fiscal year 1928 the collections from this tax amounted to B.353,197.16 representing about 10 per cent of the internal revenue.

There is little doubt that the revenue from the real estate tax could be increased without any change in the present rate of B.5.00 per B.1,000 of the full value by a more complete assessment of the land and buildings in the Republic. The present Director of the Catastro who is also the chief assessor has made a good beginning in organizing his office and in setting up the machinery of assessment. But the fundamental records necessary for his purpose are incomplete. According to our information no general land

survey ever has been made either by the national government or the municipalities. Consequently the assessor does not have the maps and plats which would enable him to determine with certainty that all properties have been included in his assessment.

All Transfers of proerty are reported weekly by the Registro Publico to the assessor, who makes the necessary changes in his records. But no systematic report is received from the municipalities of the construction of new houses or additional to old houses. And the Administracion de Tierras makes grants of public lands without reporting them to the assessor.

The determination of the value of land and buildings is the most important task of the assessor. Since all deeds are required to contain ~~in~~ the true consideration, he is able to keep informed of fluctuations in the real estate market. Even if true considerations were stated in the deeds, which is not always the case, these values would not help much in the assessment of inactive parcels of real estate. The assessor is therefore compelled to depend upon such collateral information as he is able to gather from real estate agents and builders. The alcaldes in the various districts could undoubtedly render considerable assistance to the assessor in this connection by reporting regularly upon transactions in the local real estate markets both as to lands and buildings.

At the present time lands and buildings are not assessed separately except when they belong to different individuals. In our opinion the separate assessment of lands and buildings should gradually be extended to include all property in cities. This is an essential feature of any up-to-date system of urban real property taxation. The problem of valuation is so complicated that it becomes necessary to break it up into its components, which, in the case of urban property are the land and the building or other improvement on it. The analysis of value is facilitated by the distinction between site value in the case of

land, and the cost of construction in the case of buildings, with proper allowances for different standards of construction and for depreciation.

The law governing the taxation of real property provides for the exemption of land and buildings owned by government, religious and charitable organizations. All such property should be entered on the tax lists even though it is not subject to tax. Only in this way is it possible to secure the inclusion of all taxable property on the rolls.

Unfortunately no distribution is made of collections from the real estate tax according to the year of assessment. Consequently no record is available of the annual amounts which remain uncollected. However, the actual collections during the last year compared favorably with the assessments for the same year. But a stricter enforcement of the penalty provisions of the law would undoubtedly result in increased collections.

Present Real Property Tax Rate (C)

An annual tax on all real property throughout the Republic at the rate of B.5.00 a thousand on fair value is now in effect in accordance with the provisions of Law 29 of 1925. Properties valued at less than five hundred balboas are exempt from the payment of the tax, as of course are properties owned by the nation, also properties owned by municipalities and those used for religious and charitable purposes.

The law provides that uncultivated rural lands shall be subject to a progressive surcharge, as follows:

First one hundred hectares	- - - - -	ten cents per hectare
Next four	" " - - - - -	fifteen cents per hectare
" five	" " - - - - -	" " " "
All over the first thousand hectares	- - -	thirty cents per hectare

This surcharge never has been levied. Law 39 of 1925 provided that application of it should be postponed until January 1, 1927, when 25 per cent of it was to be made effective. After that at the beginning of each two-year period an additional 25 per cent was to be levied until in January 1, 1932 the

entire surcharge would be collected. At the same time this law gave the Executive the power to extend the above periods one or more times, and by virtue of this provision, the effective date of the initial charge has been regularly postponed.

The real estate tax as it exists today in the Republic of Panama is essentially sound. Experience in tax administration has proven conclusively that the capital valuation basis of taxing real property is the only practical one. In fact, the present tax was adopted by the Republic only after a number of unfortunate experiences with other methods of real property taxation, notably the annual rental plan and the plan which makes the area of the property rather than its value the determining tax factor.

The surcharge feature of the law is aimed at land-holding for the "unearned increment," the intention being to force such holdings upon the market or into use. There might be some justification for such legislation if land-holders were obstructing the development of the country by withholding these lands from settlement, but there is no reason for thinking that this is the case. The Government still owns large areas which it offers for sale on easy terms or actually gives to settlers. Until there is a possibility of selling lands at fair prices, considering taxes paid in the past, legislation which would penalize the holders would be confiscatory and unjust. Doubtless this is the reason why the surcharge has not been made effective.

The real property tax rate of B.5.00 a thousand of fair value is one which in most countries would be considered a nominal one. It is believed that a rate of B.10.00 a thousand upon productive property would not be too great a burden on the tax-payers, and it is recommended, therefore, that, in the revision of the revenue system, looking toward reduction of import duties, consideration should be given to the gradual increase of the real property tax rate. In view, however, of the fact that a great portion of the rural lands

are at present both unproductive and unsalable, we are not disposed to urge an increase of taxation upon such lands at the present time.

We believe that the real estate tax should form the backbone of the direct system of taxation of the Republic. It is comparatively easy to administer and it has been in operation in the country in one form or another for a sufficient length of time to have become established as a customary contribution toward the support of the Government.

Tax on Inheritances and Gifts (B)

This tax produces an insignificant revenue, notwithstanding substantial rates and the low exemption value of B.500.00. The average annual return from this source during the past five years was only about B.12,500.00.. These results may be taken as illustrating the difficulties attending the application of tax legislation where information as to the property to be taxed is not readily obtained. However, enforcement should be easier than in the case of an income tax.

Apparently there is a lack of direct responsibility for the administration of the law. It is provided that estates shall be appraised by two experts, one of them shall be appointed by the Chief of the Revenue Section and the other by the persons interested in the estate. The Executive is also empowered, if the amount of the inheritance justifies it, to appoint a special attorney to represent the Treasury at all hearings held for the administration of the estate. The law does not establish definitely the responsibility of the Chief of the Revenue Section in the appraisal of estates, nor, for that matter, the responsibility of any other government official. The appraisal is made by the Court on the strength of the reports of the appraisers.

We believe that the office of the Administrator General of Internal Revenue, the creation of which is recommended in another part of this Report, should have the endorsement of this law. The regular appraisers should be attached to that

office, and in such cases where special expert talent is required it should be procured by the Administrator General of Internal Revenue. The right of appeal should exist from the findings of the Administrator General to the courts,

A tax of this kind is maintained in nearly all countries and is generally approved. The workings of the law should be studied with a view to making the measure more effective. Probably more revenue would be obtained if the tax was lower.

Slaughter of Cattle (Deguello de Ganado) (B)

The tax on the slaughter of cattle as a source of internal revenue is second only to the real estate tax, amounting in the fiscal year 1928 to B.231,249.46. Formerly, cattle were taxed annually as moveable property (semovientes) but the difficulty of checking up on the number owned by each tax-payer resulted in the abandonment of this form of tax in favor of a tax levied at the time of slaughter.

It is probably true that a considerable number of cattle are being slaughtered without payment of the tax, especially in the interior. The alcaldes can prevent such losses by refusing to issue permits for slaughter until the tax has been paid and by insisting that all cattle be slaughtered in one place under the supervision of the local police.

Stamp Taxes (B)

There are three classes of stamp taxes included in this classification, namely, stamped paper, documentary stamps, and stamps on certain imported articles including perfumes, soap, edible pastes, liquors, cigars and cigarettes. In the fiscal year 1928 the total revenues from stamp taxes was B.271,408.88. It is estimated that less than B.100,000.00 of this amount represents receipts from stamped paper and documentary stamps. The remainder is derived from the stamp taxes on imports, the chief of which are liquors and cigarettes.

It should be noted that these stamp taxes on imported articles are in

addition to the regular import duties. They are considered in the light of consumption taxes on luxuries and therefore are classified as internal revenue. But, strictly speaking, they are import duties and would have been classified as such in the statement of revenues accompanying this Report, if a segregation of them had been possible.

We recommend that the stamp taxes be revised in connection with a revision of the import duties. Stamp taxes should be established on the basis (1) of fees to the Government on account of services rendered to the tax-payer, and (2), of charges by the Government against the tax-payer on account of the regulation of particular transactions.

Stamp taxes on imported articles should be discontinued entirely, for they are in effect simply additions to the import duties which require independent action and thus increase the cost of administration of the customs. The rate fixed in the tariff schedule for any article should constitute the entire import duty.

The stamp tax law requires that certain official instruments be prepared on stamped paper. Such instruments include petitions or requests submitted to public officials other than the Judicial Power, protocols of notaries and copies and certifications which they may issue of actions or documents executed before them, wills, documents addressed by private individuals to judicial officials in civil suits, etc. Documentary stamps are required to be affixed to certain specified documents, which relate for the most part to matters subject to the jurisdiction of the Republic. At the same time, however, a large number of documents representing private transactions, which cannot be controlled effectively by the Government, are subject to the stamp tax, such as receipts for house rents, checks, sight drafts, time drafts, general commercial receipts, etc.

We believe that the requirement that stamped paper be used for official

instruments and that stamps be affixed to documents relating to matters over which the Republic has jurisdiction is a good one, for it establishes a fee schedule for minor services rendered by the Government, permits the regulation by the Government of certain activities of a public nature, and produces a substantial amount of incidental revenue. However, the stamp taxes on private transactions belong in the category of "Nuisance" taxes, for which the cost of effective administration probably would be greater than the revenue.

Miscellaneous Taxes (B)

At the present time there are a number of miscellaneous taxes for the collection of which the Seccion de Ingresos is responsible. These include the taxes on gasoline, inheritances, pearl fisheries, mines, exchange houses and the production of sugar.

The Seccion de Ingresos is also the auditing section of the Fiscal Agent's Office at the present time and likewise has custody of the Treasury stocks of sealed paper, documentary stamps, and revenue stamps, including customs stamps on imported liquor and tobacco, but not internal revenue stamps on liquor. As previously suggested, the audit function of the Seccion de Ingresos should be transferred to the proposed Office of the Comptroller General. The custody of the stamps mentioned above should at the same time be transferred to the immediate office of the Secretary of Finance and Treasury. This office would then be responsible for the safekeeping of all such stamps and the issue of them to the Banco Nacional.

A section of Miscellaneous Revenues in the Bureau of Internal Revenues should be created to take over the duties now performed in this connection by the Seccion de Ingresos. A section of this character created especially for the purpose of supervising the collection of miscellaneous revenues should bring about a better administration of the minor tax laws and increase materially the receipts therefrom.

National Lottery (B)

The National Lottery of Beneficence has been of great aid to the Treasury. Through it the Treasury has been able to apply to other purposes certain funds which had ~~been~~ formerly been employed in the form of subventions to hospitals, asylums, hospices and charitable institutions of every kind. The revenues from this source have almost doubled in eight years, and in the fiscal year 1928 amounted to over half a million balboas after deduction of all expenses.

The following quotation from the report of the Secretary of Finance and Treasury for 1922 seems to express the attitude of the Republic toward the lottery:

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"During / last forty years the country has grown accustomed to this form of tribute which is borne voluntarily and deliberately by those who render it, and if its suppression should be decreed it would only serve to flood the country with foreign lottery tickets which would be easily introduced and eagerly purchased. The system established works with absolute regularity and thus far there has not been the slightest complaint made against the fairness of the drawings or the honesty of those charged with the management of the business."

Collection Methods (B)

In each province of the Republic there is an executive judge (juez executor) who acts as a collector of internal revenue. He is assisted by a number of assistant collectors in the various districts of his province.

There is no adequate control over these collectors at the present time. Collections are not deposited regularly by them and their accounts are audited only at infrequent intervals. Serious defalcations have occurred on several occasions, and the offenders have usually escaped punishment.

In order that there may be proper supervision of the collectors and that prompt and complete deposit of all their collections may be assured, it is recommended that they be placed under the Bureau of Internal Revenue. They should be required to keep detailed accounts and to make periodical reports which should be regularly audited. To protect the Government against loss the collectors should also be bonded preferably by surety companies rather than by

personal sureties. And defaulters should be rigorously prosecuted and dismissed from the service.

At the present time collectors do not receive a regular salary but are compensated by payment of a percentage of the collections which they make. It is contended that the commission basis of compensating collectors affords an incentive for their work which would be lacking if they received a flat salary. Nevertheless, we are of the opinion that it would cost the government less to make its collections if collectors were placed on a salary basis provided they are properly supervised and controlled by the Bureau of Internal Revenue as suggested above.

Summary (B)

We recommend that the Government of the Republic adopt a policy in connection with its revenue system of (1) gradually reducing the import duties as the state of the Treasury will permit, with the exception of those on liquors and tobaccos, (2) of establishing a comprehensive specific tariff schedule, (3) of gradually increasing the real property tax.

Furthermore, that there shall be created in the Department of Finance and Treasury a Bureau of Customs and a Bureau of Internal Revenue prescribing in some detail the authority of each as well as the scope of its organization. The President should appoint as head of each of these bureaus an Administrator General of the highest attainments and the broadest experience obtainable for the positions. These officials should be given sufficient authority and backing to carry through the work of housecleaning and reorganization unhampered by personal or partisan influences. Employees if not known to be of unimpeachable character should be summarily dismissed and replaced by properly qualified men at salaries that will hold them in the public service. Finally, adequate office and warehouse facilities should be provided in addition to all necessary technical aids for the work of appraisal and assessment.

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DETAILED DISCUSSION OF PRESENT EXPENDITURES (A)

We wish now to examine in detail the expenditures made by the several departments of the government, indicating those places where we believe appreciable savings in the cost of transacting the ordinary operations of the government may be made.

NATIONAL ASSEMBLY (B)

The members of the National Assembly receive a salary of B.250.00 a month for each month they are in session. In addition to this amount they receive B.400.00 at the beginning of each regular or extraordinary session for expenses (gastos de representacion).

The deputies are in regular session for three months and have the power to call themselves into session for an additional period of one month. Since nearly every session lasts for four months the aggregate amount received by each deputy is B.1,400.00 per session. If extraordinary sessions are called, which occasionally happens, the deputies receive their salaries for the period they are in session and in addition the B.400.00 allowance for expenses (gastos de representacion). The net result is that each deputy ordinarily receives in salaries and expenses from B.2,800.00 to B.3,500.00 from the public treasury for the four years he is in office.

Since the deputies can obtain extra pay by delaying the transaction of their business, or by forcing an extra session, it would not be unnatural for them to adopt dilatory tactics. This may account in part for the fact that the Assembly has not passed a budget during the last ten years. The fiscal code provides that the deputies shall receive only half of their salaries if they fail to pass the budget within a prescribed time after it has been presented to them by the President, but this provision has never been made effective.

In our opinion, expenses of the Assembly might be more accurately estimated,

legislative business expedited and a keener interest fostered on the part of the deputies if they were placed on the basis of a straight annual salary not exceeding B.750.00 a year.

THE PRESIDENCIA. (B)

The record of contingent expenses (gastos imprevistos) of the office of the Chief Executive estimates the discrepancy which we have referred to as common in the departments, between the budget estimates and actual expenditures. The budget estimates for contingent expenses and for the actual expenditures are as follows:

<u>Year</u>	<u>Budget Estimate</u>	<u>Actual Expenditures</u>
1923-1925	B.16,120.00	B.45,034.82
1925-1927	3,000.00	40,656.40
1927-1929	15,000.00	51,642.63

From the foregoing it may be seen that actual expenditures for contingent expenses of the President have not increased unduly during the last three biennial periods but in each instance they are far out of line with the budget estimates. Such discrepancies as these seem to us ^{to be} / destructive of the authority and usefulness of the budget system. We submit that as a matter of public policy it would be wiser to increase the estimates for this office to a generous point and then hold strictly within such estimates than to set them at a low figure and then exceed them.

DEPARTMENT OF GOVERNMENT AND JUSTICE.(B)

The recent increase in the number of provincial officers alcaldes and their secretaries, and corregidores and their assistants and the increases in their salaries seem to us unwarranted.

There has been a particularly noticeable increase in the amounts devoted to the payment of the salaries of corregidores. The expenditures for these officers have increased from about B.60,000 in the biennium ending June 30, 1925 to an estimated amount of B.125,000 for the present biennium. The last Assembly

passed a law (Ley 88 of 1923) which increased the salaries of provincial and municipal officers an aggregate of B.50,000 a biennium. Nothing that we have been able to learn about the general situation seems to justify this increased expenditure; neither increase of population, cost of living, or of duties assigned to corregidores. We doubt even that there is any real need for the number of political subdivisions into which the country is at present divided.

Police Protection (3)

The amounts expended for police protection have increased one third since the biennium of 1925. During the two year period ending June 30, 1926 a total of B.1,055,172.72 was expended for salaries and materials for the police department; in the biennium ending in 1927 the amount expended was B.1,463,196.23, and the estimated expenditures for the present biennium will be about B.1,500,000.00. We do not understand why such an increase should be necessary.

Panama, it seems to us, is a law-abiding community. Crimes occur with relative infrequency, forcible attempts to overthrow the government are unknown, and political security is well secured.

(1) See Appendix F - "Memorandum sobre Division Territorial de la Republica de Panama."

The police force in the Republic is distributed as follows:-

<u>District</u>	<u>No. of Policemen</u>	<u>Population</u>	<u>No. of Inhabitants per Policeman</u>
Panama	513	98,035	191
Colon	105	58,250	555
Bocas del Toro	33	27,239	826
Chiriqui	80	73,470	955
Cocle	51	45,151	385
Veraguas	45	66,603	1480
Los Santos	35	34,638	959
Herrera	56	23,954	805
Barien	11	10,728	975
	<u>909</u>	<u>446,198</u>	<u>498</u>

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The police force of the Republic of Panama is concentrated chiefly in the cities of Panama and Colon. The province of Panama has more than one-half the total police force of the nation while it has slightly less than one-quarter of the total population. There would naturally be a higher proportion of policemen in Panama than elsewhere in the Republic because it is the seat of the government and the head-quarters of the police department. Yet it seems to us that the proportion is unduly high in the city of Panama, particularly since the shore police of the United States fleet and the military police of the United States army assist materially in preserving peace and order. Moreover, it is extremely difficult for criminal characters to get into Panama and almost impossible for them to escape. The need for additional policemen which is said to exist in the provinces should be met through the transfer of some of the men now in the city of Panama and not by increasing the force.

In our opinion the size of the police force could be reduced by at least two hundred policemen without in any way jeopardizing public peace and order. Practically all of these men should be eliminated from the police force in the cities of Panama and Colon. Three hundred and seventy-five policemen in the city of Panama and sixty or seventy in Colon should be ample to police adequately these two cities.

In view of the expense of maintaining mounted policemen we believe that a drastic reduction should also be made in the number of horses. At least half of the seventy-three horses now maintained at heavy expense near the city of Panama should be sold. A few additional motorcycles might be purchased for policing the outlying suburban sections of the city. In many instances they would be equally as efficient as mounted policemen, and considerably less expensive.

The reasons for certain other incidental expenses of the police department should be reviewed. What, for instance, is the need for a special doctor and nurse for the police headquarters in the city of Panama when Santo Tomas and other hospitals are close at hand? Are there not too many clerical employees engaged

on record work about the police headquarters?

In summary we feel that the Police Department can reasonably be requested to reduce its expenditures at least B.250,000 a year.

THE JAIL (Carcel Modelo). (C)

Many instances of the superiority of the government of Panama over that of certain cities and counties of the United States could be cited but we know of no place where such superiority is more strikingly apparent than in the new jail in the city of Panama. This jail has been well planned and well built. It is a fine example of the best modern thought in the matter of jail architecture and provision for treatment of criminals. The cells are all amply lighted and ventilated; there is no overcrowding; the health of the inmates appears to be well guarded; and the discipline seems to be good. This does not mean, however, that there is not yet considerable room for improvement before conditions are ideal in the Panama jail. The authorities however seem to understand what remains to be done and are doing it as rapidly as possible.

We would, however, emphasize the desirability of an important change. We disapprove of the way in which the funds allotted for the subsistence of the inmates of the jail are managed. It is the custom for the government to enter into a contract with a private citizen for feeding the prisoners in the jail. The contractor is allowed to charge the government, up to a certain maximum, what it costs him to feed the national prisoners. He also receives from the municipal government of the City of Panama a flat fee of twenty-five cents a day for food for each prisoner who must be supported by the municipality. The contractor is not required to do more than submit a superficial account of the materials and food purchased for the prisoners of the central government. There is no prescribed ration or supervision of the kind, quality and amount of food furnished the prisoners. No deductions are made for amounts saved on prisoners who purchase their own food. Convincing proof of the profitableness of this contract can be found in the fact that the contractor receives on an average of 30 cents a day for

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each prisoner, although he is able to feed the municipal prisoners at the rate of 25 cents a day, and although it costs the government only 31 cents a day per capita to feed the inmates and employees of Santo Tomas Hospital where the diet is more liberal and of a higher quality. Moreover, in the 31 cents a day paid at Santo Tomas Hospital the cost of salaries is included, whereas the labor used at the jail for preparing food is supplied free to the contractors.

We believe not only that this system is the source of loss to the government but we think it wrong in principle. The government should manage and operate its own kitchen and mess at the jail and should purchase all of the necessary food and other supplies through the government's purchasing officer (Seccion de Compras y Materiales). Only thus can there be assurance that each prisoner receives proper food at a fair cost. A direct appropriation should be made for the subsistence of prisoners and the revenues received from the municipality for feeding municipal prisoners should be covered into the treasury. Wherever similar conditions exist elsewhere in the government organization they should be changed to conform to the plan recommended here.

PUBLIC REGISTER (Registro Publico). (B)

All land titles and property deeds must be recorded in the office of the Public Register before they become valid and binding instruments. A fee is charged for each registration. This is based upon the value of the property shown in the deed or it is made in accordance with regulations which have been drawn up to cover special cases.

While we feel that the registration of these deeds is done accurately and neatly still we believe much can be accomplished toward reducing the expense of this service. Verbatim handcopying of all instruments in bound books is not now considered the most economical method of recording. They could be copied more expeditiously and neatly by means of a flat-bed typewriter designed to copy directly in bound books. This method is commonly followed elsewhere. The resulting record is permanent and always legible.