

The Economy of Panama

By JOHN BIESANZ *

"Panama exists by and for the Canal." President Belisario Porras kindled a hot debate with those words several decades ago. Today they are still fighting words. The Panamanians who admit their truth usually add, "Sad to say. . . It should not be so." Keenly as the founding fathers wanted the Canal, their sons now regard it as the cause of all the problems and shortcomings of their economy.

The Canal, they say, has distorted their economy. Panama is not a self-sufficient nation agriculturally and industrially; Panamanians believe that it would be were it not for the Canal. They bemoan the lack of development of rich natural resources of all kinds—forest, land and mineral—implying that were it not for the Canal these would be sources of great and abundant and reliable wealth for Panama. They bewail the depopulation of the interior by the magnet of Zone wages, and the effect of Zone pay on the labor market. They point to an unfavorable balance of trade, and demand encouragement of national industry. They see foreigners active in business and industry, and resentfully pass nationalistic legislation to fight their competition. But they consider foreign, i.e., United States, aid, loans, investment and counsel as the first essential toward development of a sound economy.

Has the Canal distorted Panama's economy, changed it from a self-sufficient, sound one using natural resources to an unbalanced, lopsided one? History shows that Panama has never been self-sufficient economically since the days of the conquistadores. Neglect of agricultural development is not a plague brought by the Americans; it is simply the continuation of a historic tendency to capitalize on the geographic position of the isthmus, to count on good times and coast through bad times waiting for another bonanza. In bad times thoughts turn back to the land and plans are made to develop the interior; but little or nothing has come of them so far. The Panamanians today as always prefer to turn cityward.

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As for a wealth of natural resources there for the taking—that is part of the El Dorado legend which has blinded Latin American eyes to reality for so long. It is true that they do not use their natural resources to full advantage. It is unfortunately not true that these untapped resources are fabulous. Latin America is relatively poor in natural resources of the kind necessary to development of industry, and natural hindrances to the transportation developments which would allow her people to utilize land and forest resources to the full are greater than in almost any other major region of the world. Panama's topheavy urban development, while accentuated by the presence of the Canal, is not unique in Latin America; almost everywhere the countryside molds in neglect while the city is the parasitic, overblown center of politics, culture, and business. Even the economic nationalism which rebels against an "unfavorable" balance of trade and against the very foreign participation they consider necessary to economic development is typical of all Latin America. It only appears more ridiculous in Panama because Panama is an entrepôt, an exchange depot, a point of transit for world commerce, and thus can hardly aspire to be self-sufficient without reminding one of the legendary ostrich with its head in the sand. The real rub, it appears, is not the fact that the Canal dominates the economy, but the fact that the Zone is American, and Panama's urban economy is therefore inextricably entangled with that of the United States.

In the mid-forties four American experts in various phases of economics studied Panama's dependence on the Zone, her tax system and her tariff policy. These reports were a revelation, but so distasteful to the majority of Panamanians that their contents were released only little by little. Besides demonstrating her great dependence on the Canal, they revealed the enormous role in her economy played by the lottery, drink, gambling, and regressive taxation.

Findley Weaver, who studied receipts from the Zone, stated the truth which many Panamanians are unwilling to admit: "All major economic pursuits in Panama are related in some degree to demands arising in the Canal Zone. . . . Commercial and financial relations with the Canal Zone . . . lie at the heart of Panama's economic system and are an essential part of the national income of her people." ¹

The most obvious effect of the Zone on Panama's economy is the large share of national income directly traceable to the Zone. In prewar years this amounted to \$24 or \$25 million a year, of which about four million dollars returned to the Zone as payments for purchases. In the peak year of 1943, Panama's gross receipts from the Zone nearly touched the \$100 million mark, declining in 1945 to \$69 million. These figures represent a substantial proportion of the national income: 40% in 1944, and 37% in 1945. And this of course is only that portion *directly* traceable to the Zone.

Much—sometimes over 60%—of this direct income is paid to individuals as wages and salaries. From 1940 to 1945 one of every eight gainfully employed people living in the Republic worked in the Zone—and his pay almost equalled the sum of wages and salaries originating in the Republic and paid to the other seven. In 1943, residents of Panama earned more than sixty million dollars in wages and salaries on the Zone.

Business enterprises located in the Republic, mostly in retail trade, received most of the remainder of this direct income. In prewar years their receipts about equalled wages and salaries from the Zone, the proportion declining somewhat during the peak of wartime employment.

Direct payments to the government are a small fraction of the total. In 1931 they were only \$500,000, and reached a peak of one and a half million dollars in 1944. The yearly payment of \$430,000 provided for in the treaty with the United States is just a drop in the brimming bucket of dollars flowing to Panama because of the Canal.

Though harder to measure, money indirectly derived from the presence of the Zone comprises much of the rest of Panama's national income. Many businesses depend largely on the patronage of soldiers, sailors, seamen, pilots and civilians who are on the Isthmus because of the Canal; measurable expenditures by non-residents reached between six and seven million dollars in 1945. Three chief sources of government revenue—the lottery, the horse races, and liquor taxes—depend largely on this foreign clientele, and fluctuate with the coming and going of large military units. Seeing these three items

¹ Findley Weaver, *Panama's Receipts from the Canal Zone in Relation to Her Foreign Trade and National Income*, Embassy of the United States of America, Panama, 1946. Typewritten report, 14 pages.

as a sensitive barometer of Panama's economic condition, the Office of Statistics found a sharp decline since 1945. In 1939 the government got over one and a half million dollars on the various liquor taxes; in 1943, over five and a half million dollars, and in 1950, four and a half million dollars; consumption dropped but the tax rate was higher. In 1945, bets at the national race track were a million dollars a month; in 1950 they were off 38%. The sale of "chances," the cheap lottery tickets bought largely by the poor, declined by over half from 1944 to 1950.

Her proximity to the Canal has given Panama a per capita income which is among the highest in Latin America. With a hundred and forty million dollars in 1949, or \$183 per person, she was surpassed only by Argentina, Uruguay, Venezuela, Cuba, and Chile, with per capita incomes respectively from \$346 down to \$188. Some writers have ranked her next to Argentina and Uruguay in other years. This is more than twice the estimated \$71 per person in 1940 and a drop from a wartime peak of \$207.

This comparatively high income is readily apparent in the chief cities. The gap between poverty and riches is wide, but its impact is attenuated, for one familiar with other Latin American cities, by the absence of the usual swarms of sickly, incredibly ragged and filthy beggars, and the presence of a comparatively large middle class employed in government and business offices, stores and schools.

In the rural areas, however, little of this high income is evident. Studies have shown the average campesino to be nearly self-sufficient, in some districts averaging only \$14.00 a year per capita income. Although half of Panama's gainfully employed inhabitants are farmers, and two-thirds of her people are country dwellers, only 11.3% of Panama's national income in 1941 came from agriculture; in the wartime boom this dropped to 6%. It is here that the "distortion" of Panama's economy by the Canal is most apparent.

From forty-nine million dollars in 1940 to one hundred and forty million dollars in 1950, Panama's national income almost tripled. Where did the stream of dollars go? Certainly not to the interior. Nor is the lot of the city laborer any better than formerly, for the cost of living has jumped in proportion but his wages have risen little if at all. This stream of dollars was diverted mostly to a comparatively few politicians and

businessmen. Few wealthy Panamanians have made their fortunes in agriculture or industry. A few have done it through canny trading. Most have grown rich through deals, arrangements, land grabbing, tenement rentals, inside information on what the government was going to do, pressuring the government into a favor, and especially through government contracts. Political office ensures the businessman and his friends and relatives of prosperity.

Though Panama's chief function is selling goods and services to those maintaining, defending, or transiting the Canal, her people still think that commerce is not the basis of a healthy economy; they believe that only self-sufficient agriculture and national industry mean true prosperity. "For years," lamented the Minister of the Treasury, "we have lived under the false doctrine that commerce brings prosperity." Tired of being dubbed parasitic, the Chamber of Commerce retorted that commerce does bring prosperity and predicted that Panama would continue to live chiefly from commerce for many years to come.

One reason why so few Panamanians are happy about this dependence on commerce is that they still labor under the old mercantilist delusion that only a country with a "favorable balance of trade" is truly prosperous—and from their point of view Panama's balance of trade is alarmingly "unfavorable."

When measured by visible exports and imports, perhaps no other country in the world has such an "unfavorable" balance as Panama. Averaging nine dollars' worth of imported goods for every dollar of exports, in some years the scales are even more heavily tipped toward imports. In 1950 Panama exported ten million dollars' worth of goods, and imported \$67 million worth. Of this she "reexported" about five million dollars' worth, largely to passing ships and planes.

Small wonder mercantilists view the situation with alarm. How can such a nation possibly be more prosperous than her neighbors who pay for their imports with coffee, bananas, coconuts and cacao? The answer, of course, is *invisible* exports. The services sold to Zone agencies are not tangible, but the dollars they bring in are just as real, and perhaps somewhat more reliable, than the dollars paid for "dessert" products. Many of the imported goods are resold to travelers and Zonians, who also buy some domestic products. Receipts from the Canal Zone provided funds for 86% of Panama's

international payments in 1939, 91% in 1945, and in the fabulous year of 1943 they exceeded payments by 19%.

The United Fruit Company ships most of Panama's exports to the United States. Of the ten million dollars' worth of exports in 1950, more than \$9,279,000.00 went to the United States. Well over half of this was bananas, with one and a half million dollars' worth of abaca fibers and over one and a quarter million dollars' worth of cacao. Other exports were cowhides to Europe, coconuts to Colombia, mahogany and cement to nearby countries.

The level of imports is an index of Panama's prosperity, since the country's business activity consists largely of the resale of imported merchandise. From a paltry nine and a quarter million dollars' worth of imports in 1933, the volume rose to a high of seventy-five million dollars in the postwar year of 1947, when goods were again flowing freely after the dollar-rich but goods-hungry war years. In 1950 she imported sixty-seven million dollars' worth, of which two-thirds came from the United States and \$3,600,000 from the Zone. Nearly half of this was manufactured goods, almost a quarter was foodstuffs and beverages, with raw materials and semi-manufactured products making up the remainder.

Cheap water transport brings to Panama a wide variety of goods, produced by cheaper or more efficient labor than is available locally. Freight charges from many world ports to Panama are lower than transport charges from certain points in the interior to the terminal cities! Thus Panama can take her pick from the world's goods. With a comparatively high national income in dollars, and the advantage of a stream of merchandise flowing her way, she should be able to boast of a high level of living for all her urban people.

Such unfortunately is not the case. One reason is that her government levies high import duties which bear most heavily on mass consumption goods and least on luxury items. In addition, all items pay a high "consular fee." Said Dr. David Lynch of the United States Tariff Commission, in a report on Panama's tariff policy, "If consular duties were included the ad valorem equivalent of the levies on total imports would range from about 21 to 27 per cent. Similarly the burden on dutiable imports would be increased to nearly 40 per cent." ²

He found that in a typical year potatoes were taxed 325% ; sugar, 306% ; rice, 115% ; canned tomatoes, 300% ; lard, 73%.

Perhaps as a result of his diatribe against the regressive nature of the duties, some foodstuffs now are much less heavily taxed. Nonetheless, carrots, sugar, tomatoes and the like pay 50% to 100% duty. Many luxury items go scotfree on the theory that this will attract the tourist trade. Meanwhile the poor, who must spend about half their earnings for food, contribute a disproportionate share of import duties.

Panama's luxury and curio shops testify to her rich and cosmopolitan trade. Her native markets for fresh fruits, vegetables, fish and staples are much like those in other Latin American countries. A few dime stores and department stores show strong American influence. The most vivid proof that Panama is a trading nation, however, is the array of small shops lining Central Avenue, "Salsipuedes," and Front Street—clothing stores, hardware stores, dry goods stores, shoe stores, grocery stores, drug stores. Many consist of only one small room with goods displayed right up to the curb. The small stores keep long hours in hopes of attracting working class clientele. Many of them advertise "clubs" for installment buying. These make shrewd use of the native love of gambling by assigning each customer a number; if it comes up in the lottery he gets his purchase without paying the balance.

Who owns these stores? That is a touchy question. The Chinese, declared Felipe Escobar in 1928, had the retail groceries, Greeks the fruit trade, Spaniards, French and North Americans the hotels, Hindus and Chinese the dry goods, Syrians, Turks and Armenians the cheap clothing, and Jews some of everything. "We alone do not prosper here, we who have most right." Though few—2638 in 1940—the Chinese so controlled the retail grocery business that "going to the Chino's" was synonymous with "going to the grocery store." In 1940, nearly 45% of the men actively engaged in commerce or manufacturing were foreigners.

The Panamanians resent this competition and regard it as unfair. Many who censured Arnulfo Arias' other measures approved highly of his "nationalization" of commerce. In 1941 by devious means he dispossessed most Chinese owners of their shops and handed them to his henchmen or sold them for

² David Lynch, *Report on the Tariff Policy of Panama*, Washington, D. C.; Inter-American Development Commission, May, 1946. 52 pp. and tables. Mimeographed.

ridiculous amounts. A few Chinese who were married to Panamanians managed to transfer title to their wives, and others are back in trade again. He also made it difficult or impossible for West Indians to engage in commerce. While most Latin American countries adopt nationalistic measures to protect home industries, Panama is almost alone in its nationalization of merchandising.

Panamanians approve of nationalistic measures against foreign competition because, they say, the Oriental standard of living is so low that a Panamanian could not stoop to compete, because the profit was sent out of the country, because the foreigners had connections which gave them an advantage in obtaining inexpensive goods. The Constitution of 1946 limits the entry of foreigners into retail trade to certain types, and restricts their entry into the wholesale field. Other laws, some dating back to 1934, provide that Panamanians must control 51% of the stock of corporations, and not more than 25% can be in the hands of people of prohibited immigration. 75% of all employees must be Panamanians and 75% of the payroll go to Panamanians. In August, 1946, the United States Tariff Commission roundly scored these nationalistic measures as an attempt to give quasi-monopolistic rights to Panamanians. It warned that such a program might rebound to Panama's disadvantage in higher prices for goods, loss of tourist trade and discouragement of foreign capital investment.³

"Panama, with its scant population, cannot refrain from adopting protective measures such as the nationalization of retail commerce," retorted Foreign Minister Ricardo Alfaro. He shuddered to think of the "enormous number of merchants who would come here from all parts of the world if the door should be swung wide open to them so they may come to compete with the Panamanian in his own land."⁴

Why cannot Panamanians compete successfully against foreign merchants without the weapon of nationalistic law? One reason is their business philosophy, which is that of the gambler or plunger, rather than the true trader. They prefer low volume and high markup; they want quick, large profits on small investment. They cannot think in pennies. In many

³ United States Tariff Commission, *Economic Controls and Commercial Policy in Panama*, Washington, 1946. Pamphlet, 23 pp.

⁴ *Panama American*, August 18, 1946.

stores there is little conception of a "customer service" policy such as most American department stores practice. Many store-owners prefer to give most of their time to law or politics, expecting their businesses to run themselves. A Panamanian columnist who ordinarily is the first to defend his compatriots and criticize foreigners says the real reason they resent foreign competition is that they just do not want to work as hard.

"Why," he asked one day, "don't we work the way the foreigners do? We continue speaking against foreigners, laborer or businessman, who take over all the business that should be in the hands of the sons of the country; we raise our voices against him who dedicates most of his time fulfilling his duties, performing a job of some kind or attending to his commercial obligations and ends up by making some money after years of constant struggle.

"We criticize whoever raises himself from a humble position and succeeds in holding a notable position that the Panamanian should occupy. We live embittered by the well-being of the foreigners who get it by dint of hard work, and right now we are yelling because the Chinese have again taken over the grocery stores and prevent native elements from running them. We should be ashamed of ourselves for this crying which shows only our lack of working capacity, our laziness and our negligence.

"What happened to those stores, those bars, that passed to Panamanian hands because of an arbitrary and unjust command? How many Panamanians sold them back to their previous owners and how many still have them? The Panamanian, it is painful to confess, is no good for any job that requires steady application and responsibility, that separates him from the bar, cock fights, and horse races. In a word, he can't pull himself from this waste of time and money that forces him to abandon his store, his business, or his job.

"Certainly with such a mode of living no one can make a fortune, no one can prosper.

"But the foreigner, laborer or businessman, is different. He does his daily duty, works, struggles and after some years of incessant work, he realizes a fortune, and with it, tranquillity.

"Why can't we emulate him?"⁵

⁵ The columnist, "Yugurta," in "Salpicaduras," translated from Spanish section of *Panamá-América*, September 17, 1947, in English section of September 20, 1947.

When it is not the foreigner in the Republic whose competition rankles, it is Uncle Sam's commissaries on the Zone. Since 1905 when President Amador of Panama himself headed up a delegation of businessmen who went to Governor Charles Magoon to complain of the Zone commissaries, Panamanian merchants have howled about the competition presented by our tax-free nominal-profit government stores. After the first World War, it was charged that half the people in Panama and Colon used the commissaries, which advertised luxury items from all over the world. "The fact was that in 1918 the Republic had a population twenty times as great as that of the Canal Zone, but imported less merchandise." ⁶

Minister Ricardo J. Alfaro, later president, wrote Charles Evans Hughes in 1923 that the Panama Railroad Company operated ". . . commissaries, livery stables, garages, baggage transportation within the cities of Panama and Colon, dairies, poultry farms, butcheries, packing and refrigerating plants, soap factories, laundries, plants for roasting and packing coffee, sausage and canned meat factories, iron works, carpenter shops and cooperages, etc." ⁷

The United States agreed to restrict patronage to Zone employees and their dependents, and to sell only necessities. Even today, however, Panamanians complain that the only three items not for sale in Zone commissaries are women, whiskey and autos.

"Unfair competition," complain Panama's merchants. And it is true that commissary prices have often been only half as high as prices in the Republic—or even less. They are run under certain advantages, such as low freight rates, no import taxes, no necessity of showing a profit. But what most Panamanians do not understand is the tremendous contribution the commissaries make to the real income of their country. People who just manage to get by now would be half starved if they had to buy only in Panama. Though since 1926 only United States government employees and their families have been entitled to commissary privileges, there is said to be a lot of smuggling of goods from the Zone into Panama. But this, too, is income which makes Panama's existence a little less poverty

⁶ William McCain, *The United States and the Republic of Panama*, Durham: Duke University Press, 1937. Pages 226-227.

⁷ *Ibid.*, p. 230.

stricken. A few merchants aren't making the extra profits they would like to, but these are gains to consumers, gains which "are a greater net advantage to the country than added profits for merchants or other restricted groups." ⁸

Not all deny these benefits. Any proposed cut in commissary privileges draws immediate protests from consumers. A Panamanian congressman once said, "Blessed be the commissaries of the Zone, for they are the salvation of our poor people." The commissaries perform yet another valuable function by exerting a brake on the high mark-up of private merchants. All in all these government shops represent one of the greatest gifts the United States has made to the people on the Isthmus—and yet they have been the source of great ill-will because they have reduced the profits of ambitious and influential merchants who are less interested in their country's welfare than their own. Many of these same merchants may be seen eating at the Tivoli and the clubhouses and attending Zone movies; in fact many Isthmians believe that much of the smuggling of commissary goods into Panama is actually engineered by those well able to pay Panama prices.

Purchases from the Zone which appear on official records amount to a tidy yearly sum, which has risen from slightly over four million dollars in 1939 to over seventeen million in 1945. This paid for commissary merchandise, hospital care, water for the terminal cities, street cleaning, garbage collection, construction of some streets and roads.

In order to sell the commissaries must buy, and they are perfectly willing to buy from Panama if specifications are met and the supply is regular. These conditions have rarely been met in the past. Our Embassy recently attempted to explain Zone requirements to Panama's businessmen and producers, and in 1949 substantial contracts were awarded Panamanians, largely for beef, cement, and sugar. In 1951 the Canal spent over one and a half million dollars in Panama, of which \$710,000 went for agricultural products, mostly beef and sugar, \$435,000 for beverages and industrial products.

Panama has an enormous merchant marine for such a tiny country. Nine hundred ships were flying the Panamanian flag in 1949. Almost all are owned by foreign companies, who

⁸ Simeon E. Leland, *A Report on The Revenue System of Panama*, Inter-American Development Commission, Washington, D. C., 1946.

find Panamanian registry a convenient means of reducing expenses and evading many restrictions.

High trade barriers, Zone competition, and the lack of a spirit of commercial enterprise have kept Panama City and Colon from developing into the really great centers of world commerce that one might expect them to be. An American expert advised creation of a foreign trade zone in the Republic which would bring European and American manufacturers closer to Latin American markets and be of great direct and indirect benefit to Panama.⁹

A foreign trade zone has been established in Colon and another is planned at Tocumen Airport. The Colon Free Trade Zone board hopes to make Colon an international port of call with its own docks and an area where numerous world manufacturers will share building space for warehouses and packing and assembly plants. Foreign goods can enter the zone without going through customs; there goods can be stored, assembled, partially processed or repackaged, and then resold or shipped free of Panamanian duty to another country. Already several large American firms have been attracted; a large drug company moved its entire New York office, handling its export trade, to the free zone. Many Panamanians look to the zone to create a demand for labor and stimulate shipping and agriculture. Some businessmen fear smuggling and evasion of import duties; but they are assured that the danger does not exist.

The Chamber of Commerce advocates a duty-free economy for the entire country. Then merchants could undersell commissaries and post exchanges, there would be no smuggling, and one point of friction with the United States would be eliminated. Prices would be lower, and the buying power and standard of living higher. Certainly allowing all goods to enter free of duty would greatly benefit the poor, who in effect pay regressive taxes because of the absurd system of import duties now in force. It would also be consistent with what has always been Panama's natural function: the sale of goods and services connected with the Isthmian transportation route. Nonetheless, most Panamanians apparently have less faith in

⁹ Thomas E. Lyons, Executive Secretary, Foreign-Trade Zones Board, U. S. Department of Commerce, "Report on Proposal to Create a Foreign Trade Zone in the Republic of Panama," Washington 25, D. C., September 1, 1946. 40 pp. plus appendices, mimeographed.

this plan than in the notion that Panama should develop her own industries. This dream is found in all of Latin America. It is of course stimulated by every crisis that makes importation difficult, such as depression and wartime curtailment of shipping. Essentially, however, it is an expression of economic nationalism.

While Panama has never been a manufacturing country, its people refuse to give up the dream. Daily one hears proposals to establish this industry or that, and some promoters are successful in enlisting government aid in the form of a high protective tariff and other concessions. It is difficult to see much justification for dreams of Panama as a highly industrialized country, however. She lacks a market, native know-how and willingness to invest, cheap power, and adequate transportation facilities. Labor is somewhat scarce, too, because of the scanty population of the country and the proximity of the Zone; and her currency is on a par with that of the United States, making sales to countries with cheaper currency and labor unlikely. As for foreign investment, toward that she has such an ambivalent attitude that foreigners are now little interested in industrial development.

Cheap and heavy or bulky products are about the only ones in which Panama has an advantage. Cheap beverages, lumber, furniture, mattresses and cement are successfully produced. Beer is Panama's most lucrative home industry. A local monopoly produces several brands of the "liquid Panamanian bread." It depends largely on the patronage of a large floating population of American military and naval forces; witness the decline in sales from 26 million liters in 1945 to 13 million in 1950. Other manufactures include wines and liquors, soft drinks, rectified alcohol, soap, ceramics, footwear, sole leather, hides, sugar, canned milk. A number of small shops produce clothing and furniture.

Some of these industries are successful only because tariffs are so high that competing goods cannot enter. National industries are often given tremendous concessions when backed by local capital. The new cement company, for example, was promised an almost prohibitive tariff on cement for 25 years, and was rented 1500 acres of state land at \$1.00 a year. Upon proposing to set up a \$12,000.00 biscuit factory a few years ago, a prominent family was promised that the tariff on biscuits would not be lowered until 1971, and that until then they

would have to pay no municipal, provincial or national taxes!

Duties on such items as potatoes and sugar were designed to "protect native industry." Potatoes are not suited to Panama's climate; sugar has been a monopoly which until recently charged four times the world price. Lynch agreed with an earlier investigator, Roberts, that duties should be lowered; in fact, because of her geographical position and the desirability of keeping her prices more or less on a par with those of the Zone commissaries, Panama would do well to lean as far as possible towards a free trade policy. Lynch flayed the protectionist program as a "monstrosity," a "subsidy to parasitic industries," and "a placing of hateful burden on the poor." He thinks high duties on such raw materials as sugar have actually retarded the development of enterprises which might have made healthy contributions to the national income and have often operated as a price umbrella shielding outmoded and high-cost methods of production. He cites the wearing-apparel industry as one that is thriving with little or no protection and producing a satisfactory product at reasonable prices. Potatoes, on the other hand, do not do well in Panama; yet in a typical year Panamanians have been required to pay as much as \$236,000 in import duties to protect an industry whose domestic production was valued at only \$70,000.

Spokesmen of sub-marginal protected industries repeatedly told Dr. Lynch that they could not conceive of a time when their businesses could exist without government support. "Such statements indicate that various industries should never have been established, inasmuch as their existence is continuously dependent on the exaction of indirect tributes from taxpayers. The government has no moral obligation to guarantee the profits of any chosen group of producers."¹⁰

There are, of course, certain things which Panama would do well to develop, perhaps utilizing oranges, coconuts, and fish for canning and freezing. The old specialties of tortoise shell, mother of pearl, pearls, coral and fine gold filigree work, if properly promoted, could be as attractive to tourists as the gaudy Oriental imports now shown in the bazaars. On the whole, however, most of the Panamanians' dreams of industrialization should be subjected to the severe tests suggested by Hanson:

¹⁰ Lynch, *op. cit.*

"Against the current overwhelming acceptance of the role of industrialization, we must pose the simple question whether in Latin America the primary motive is more and cheaper goods or whether it is another attempt to create a privileged position for a small group rivaling that of the traditional land-owning group. On the distribution side, the readiness to substitute a mass-consumption business philosophy for the prevailing philosophy of small volume and high unit profits must also be examined." The slogan of "industry regardless of cost" holds out dangers of disappointment. "From the standpoint of development, the test of the drive (for industrialization) is not the fact that the country may thereafter be consuming what is produced at home, but whether it is consuming more than previously . . . the motive and justification of industrialization (for the masses of poor) can only be more and cheaper goods." ¹¹

Four out of five males over age ten and one out of five females are gainfully employed. Of every hundred workers, 51 are farmers, 14 work in the Zone, 9 are servants, 7 work in manufacturing, 5 in public or professional service, 5 in commerce, 5 in construction, and 2 in transportation and communication.¹²

The productivity of the Latin American worker is notoriously low. The chief reason, according to a long-established belief of foreign employers, is "natural indolence." The kindness of nature in the tropics, they say, makes people lazy. "Life is by far too easy for the poorer classes," said Bidwell in 1864, "for there to be any hope of these people becoming truly industrious. As they say themselves, 'It is never cold here,' and where it is not cold, there is not much hunger. So long as a man can live and support his family on a few wants, and those wants he can readily provide for by one or two days' work a week—work that is performed lazily but dearly paid for. . . . As the employer must have this labor, and as the laborer can live without work, the master, who is generally at Panama the weakest, goes to the wall." ¹³

¹¹ Simon G. Hanson, *Economic Development in Latin America*, Washington: The Inter-American Affairs Press, 1951. Pages 10-11.

¹² Rough equivalents of percentages given in the 1940 census. The remaining 2% includes those whose occupation is not listed or classified.

¹³ Charles T. Bidwell, *The Isthmus of Panama*, London, 1864, p. 250.

Even today many would agree with this judgment, and laugh at the line in Panama's national hymn, "Let's to work with no more delay." Insofar as there is some truth in such charges, what are the reasons? The kindness of nature is no longer a factor, if indeed it ever was, for today's standards are much higher. Today's urban worker, at least, sees many things he wants; and even the barest necessities of his tenement existence must be paid for in Yankee dollars. If he has no political sinecure or lucrative business, he labors hard and long. His low productivity is due to three things (besides lack of machine power): health conditions, the age structure of the population, and the prevailing attitudes toward work and saving.

Health conditions in urban Panama are far better than in many other Latin American countries. Even so, malaria, intestinal parasites, and malnutrition undermine vitality and account in large part for the oft-noted "indolence" of the working population.

The economically active portion of the population must support more dependents than in many other countries, say the United States. Forty per cent of the Panamanians are under age 15, as compared with 25% in the United States. This is probably typical of Latin America. As a consequence, much of the energy of those in the productive years goes into the bearing and raising of children. While this predominantly youthful population may strike a hopeful note for the future, it is undoubtedly one cause of low per capita income. It also helps to explain why one out of five boys between age 10 and 14 are working, and four out of five between 15 and 19. They also keep working as long as they are able; four out of five men over 70 are still working.

Foreigners have often commented on the Latin American's "inherited" disgust for manual labor and his preference for politics, the professions, and—farther down the scale—business. This attitude is very noticeable among the middle and upper class, though somewhat attenuated in Panama by the example of the Zone, where skilled laborers live on a higher level of comfort and security than most Panamanian white collar and professional workers. The history of Panama has accentuated a tendency to rely on luck and to blame bad luck for failure, rather than one's own lack of ability or initiative. The lottery is the only hope most Panamanians have of ever achieving a comfortable living standard.

The lack of thrift among the mass of Panamanians is easily explained: wages are so low there is no margin for saving; in fact, they barely allow subsistence, much less a minimum standard of health and decency. Half the workers in Panama City were found in a survey to be earning less than \$50.00 a month, while the average wage was \$76.50. Outside of the principal cities wages are much lower, around \$30.00 in the provincial capitals and less in the smaller villages.*

In an economy geared to the American dollar, to imported and highly taxed goods, this wage is ridiculously low. Lower class urban women often have to work to support themselves and their children, largely because of the disorganization of family life. Twenty-eight per cent of the urban women over age ten are gainfully employed and only 11% of the rural. In the predominantly urban provinces of Panama City and Colon this percentage rises to nearly a third; foreign-born women are more likely than native-born to be gainfully employed; nearly half in Bocas del Toro and Colon, provinces with large numbers of West Indians, work.

Two out of five women workers are servants, 15% are employed in manufacturing, 17.2% in agriculture, cattle raising, and fishing (a misleading figure, as only heads of households are reported here as working, and many women work alongside their husbands); slightly more than 11% in public and professional service. The remainder are more or less equally divided among Zone employees, commerce, and other activities.

The women in public and professional service are largely middle-class school teachers and office workers. Many of them are married. They find their salaries necessary additions to the family income in the struggle to raise their children adequately, and acquire the many things they want.

"In the United States, the workers aimed first at achievement of a high level of wages—a 'saving wage'—and then sought social security and welfare legislation to supplement it. In Latin America they have won, or rather been given, a mass of social legislation while wages remain at a level that does not permit any significant expansion of mass purchasing power." ¹⁴

* Annual Economic Report of the American Embassy in Panama, No. 90.

¹⁴ Serafino Romualdi, "Labor and Democracy in Latin America," *Foreign Affairs*, April, 1947, p. 481.

The government's enlightened and elaborate Labor Code and social security legislation are perhaps due less to the influence of labor itself than to the impact on those who shape labor policy of the example of the Zone and of neighboring Costa Rica. A huge social security organization is designed to protect the urban worker against the financial hazards of illness, old age, disablement, motherhood, and death. In 1950 the agency took in 5½ million dollars.

Minimum wages, an eight-hour day and six-day week, overtime pay, a month's vacation with pay (during which one cannot work for anyone else) are some provisions of recent labor legislation. Besides getting liberal maternity leave, women are supposed to receive equal pay with men. The Labor Code, which went into effect in 1948, is a definite step forward but its effectiveness is uncertain; not all occupations are covered, fines for violations are ridiculously low and there are no jail sentences.

Labor organization has not been completely successful in Panama. Lack of industrial development, heterogeneity of the labor force, which includes many English-speaking West Indians with whom Panamanians feel little or no solidarity, and bitter memories of early experience with strikes long discouraged laborers from joining unions. Early in the twenties the Syndical Union of Workers was founded, and when housing was found to be the sorest point with the working class, called a rent strike in 1925. Firemen turned hoses on the crowds gathered in Santa Ana Park; then President Porras called the American soldiers to restore order, and left in Panamanian minds and history texts a bitter memory of "Yankee bayonets," of an "unfriendly act" of the United States. In 1932 another rent strike was broken by the police. During the depression of the early twenties and again a decade later the Panamanians agitated for repatriation of the West Indians, whom they considered unfair competitors in the labor market. Tenement owners, always powerful in Panamanian politics, blocked wholesale repatriation, and the questions of housing and jobs continue to embitter relations between the two groups.

During the thirties labor organization made some headway. Led not by men from the ranks but by middleclass sympathizers, they were oriented toward political action rather than collective bargaining. The Federación Sindical de Trabajadores is now leftist; its affiliation with the left wing students

is close, and its leaders are working with the leaders of the youth movement to interest the campesinos in union. The Union General de Trabajo is an anti-leftist group which broke off from the Federación in 1947 and appears to have government support; delegations to international conferences are chosen from its ranks. There are a number of smaller unions, usually connected with a specific industry, such as the brewery workers.

The presence of the Zone, of course, complicates the labor picture. Its demand for labor fluctuates greatly with the exigencies of war and new construction. When it is high, prosperity reigns in Panama; when it is low, there is a wave of unemployment. The Zone uses Panama as a dumping ground for wornout and superfluous labor. Discharged, superannuated, and disabled local rate workers cannot stay on the Zone; they must come into Panama or leave the country; if they are retired they have such a small pittance that they are a burden on the country.

The discriminatory policy of the Zone in wages and living conditions on the one hand, and the higher real wages offered unskilled labor in comparison with average wages paid in Panama on the other hand, make for ambivalent feelings toward Zone employment. Many swallow their pride and work for Zone wages and commissary books, cheap medical care and regular hours. During every boom many come from the interior to live in the terminal cities and work in the Zone; when the inevitable "bust" follows, many stay on to swell the ranks of unemployed, miserably housed city laborers.

The Panamanians have a good, hard money which gives them little trouble: the American dollar. Though Arnulfo Arias printed some paper balboas and nationalists persist in quoting prices in balboas, the only paper money around is the dollar. American coins circulate freely and on an equal basis with Panamanian silver.

Dollars were abundant during the war, when direct receipts from the Zone went as high as 98½ million dollars one year. Bank deposits soared so high that two banks stopped paying interest. But investments continued in the traditional pattern: heavy on real estate, wary of anything productive. This reluctance to back industry was characteristic also of the two large American banks which came in several decades ago; they prefer to risk only short term demand loans. The government

established a bank to make loans to agriculture and industry, but for various reasons it has been somewhat less than a complete success. A privately-backed credit bank is trying to fill the gap by granting loans and paying a higher rate of interest on savings, but suffered a setback during the Arias regime. There is plenty of money in Panamanian hands; but the rich are generally reluctant to invest in agriculture or industry; they either sink it in real estate or send it out of the country. Bank deposits in 1945 were eighty-two million dollars (of which sixty-seven million dollars was private savings accounts) compared with thirteen million dollars six years earlier. Postwar purchases brought the total down to sixty-five million dollars in 1950.

With so much idle money in Panama it is hard to understand why Panamanians cry for foreign capital. This is another of the many curious ambivalences found in their thinking; in one breath they decry economic imperialism and in another they plead for foreign advice and capital—usually American—as all they need to get them well on the road to industrial and agricultural development.

American investments in Panama have been heavy since the railroad was built over a hundred years ago. By 1881 our investments in Colombia amounted to fourteen million dollars, most of it in Panama province. But Panamanians wanted more. When Roger Babson visited the Isthmus in 1915, President Porras told him American capital was not coming in fast enough, that "All we need now is affection and capital, to make the rose blossom where the cactus now flourishes."¹⁵

Wooed by such promises, many American companies have established branches or agencies in Panama. Among the largest enterprises are the United Fruit Company and Fuerza y Luz (Light and Power, a subsidiary of Electric Bond and Share). These two companies are targets for much Yankee-baiting in most Latin American countries where they are established; in Panama the presence of the Canal has deflected much of the criticism they might otherwise have attracted. The growth of nationalism in the past dozen years, however, has made for harassment of established enterprises and discouragement of new ones. Nationalistic laws, discriminatory measures, levying of ancient and long ignored taxes (the per-

¹⁵ Roger W. Babson, *The Future of South America*, Boston, 1915, p. 89.

son denouncing the company gets a fat cut of the take), and numerous petty needling tactics against Fuerza y Luz indicate the climate of opinion. While native investors are offered and promised free land, tax exemption, high tariffs, and other concessions, foreigners thinking of investing are limited to certain kinds of businesses, told that they must hire a Panamanian technician for every American technician on the payroll, regardless of whether or not there are enough trained Panamanians available, offer local investors half the shares, guarantee production, pay for any damages, pay the government stipulated sums at specified times, and give certain free services connected with their business. In return they can use waterways and existing roads.

If few Panamanians have enough confidence to invest their own money in local industry in spite of all the concessions they are offered, how much less inviting is the prospect to a foreigner looking for a good investment! Apparently when Panamanians say they need American money, they mean public money. For as one acute observer of the Latin American scene remarked, "Difficult as negotiations are in Washington, it appears easier for the Latin American administrator to get financing out of the American taxpayer than to enact proper tax legislation at home"¹⁶—tax legislation that might put idle savings to work.

With a foreign debt of eleven million dollars in 1951, and a domestic debt of over twenty-one million dollars, the government was trying to negotiate a twenty-two million dollar loan from the Export-Import Bank. Several private companies had already refused; the President denied the rumor that this was because of the country's political instability, insisting that money was scarce.

The government plays an important role in Panama's economic life. It does this in various ways: by entering some fields itself, by regulating certain activities, by means of its revenue system, and by means of its expenditures.

While the government owns fewer businesses and industries than in many Latin American countries, the timidity of private capital and the mutual distrust of foreign investors and Panamanians have forced the government into several fields: the

¹⁶ "Acierto," pseudonym, "A Marshall Plan for Latin America," *Inter-American Economic Affairs*, 1: September, 1947, p. 3.

Chiriqui railway, housing, the telegraph system, credit banking, etc.

Success in business often depends on political connections. Contracts, licenses, scarce goods are awarded or withheld according to political strategy. Businesses are taken from one owner and handed to another on flimsy pretexts. Relatives and friends of the president and the minister of public works have an advantage over business competitors with no such connections. Legislation is abundant, projects even more so; but there is no consistent policy carried on for any length of time. The dominance of the spoils system and the lack of any stability in administration rules out planning. The Panamanians exhibit another contradictory set of attitudes in this connection: they have no faith in the government and blame it for all the evils of the country when they are not blaming the United States and the Zone. Yet when they discuss any specific problem their conclusion inevitably boils down to: "The government must do something."

The government revenue system both reflects and molds national economy. A comparatively enormous government income—over thirty million dollars in current years—comes largely from indirect and regressive taxation. High taxes on imports and exports, on liquor, gambling and the lottery furnish the bulk of this income. Of every ten dollars, four come from import duties and consular fees; \$1.50 to \$2.00 from the lottery; over a dollar from the tax on manufacture and sale of intoxicating beverages; and another dollar from the income tax. The balance comes from the government services, sale of lands, the Canal annuity, export duties, and other internal revenues such as the property tax.

According to Simeon Leland, property assessments and tax rates are too low; and there is marked evidence of favoritism in collection of property taxes. The tax, he says, should be doubled, valuations published, bills mailed to taxpayers, and glaring inequalities ended.

Income taxes, too, are among the lowest in the world. Though taxes begin at a low level, the 5% bracket begins only at \$12,000.00 and even a man who makes a million pays only 16%. While social security cards showed that 11,537 people should have paid income tax in 1945, only 4,473 did so. Lack of record-keeping, use of cash in business transactions, the small and untrained auditing staff all make evasion easy. With

some taxes, such as the capital gains tax, collections appear to be made only from those who do not object! Political connections insure one against punishment for evasion. The inheritance tax is a farce because the heirs pay the appraisers of the estate!

Tax laws are uncodified, and administration and collection so little organized that many taxpayers say they do not know what taxes they owe, nor where to pay them. Many do not pay at all, or wait until a collector shows up and adds a 10% penalty to the tax. In 1946 the special tax collector earned the largest income in government service—\$46,000. Leland found that delinquent taxes are usually collected only from the “easy marks.” If any resistance is shown, only a half-hearted effort to enforce payment is made. This condition is, Leland thinks, the by-product of years of interference with the execution of tax laws. Taxes should be based on ability to pay rather than power to extort.

This regressive taxation, with its emphasis on products most in demand by low income groups, with savings and real estate and high incomes going almost scot free, with high tariff protection for a privileged group of domestic producers, is typical of Latin America. It helps to keep mass purchasing power low and to perpetuate the wide gap between rich and poor.

Government expenditures as well as taxes and tariffs influence the national economy. The thirty-eight million dollar government budget in 1950 (13.3% of which was borrowed) was large indeed for a tiny Central American country. Over a fifth of it went for education. Public Works and the department of Government and Justice (characterized by an editor as a “useless bureaucracy”) each took over 17%; Labor, Social Welfare and Public Health, 15%; other ministries, 16%; the public debt, 11%. The Ministry of Agriculture, Commerce and Industry got somewhat less than 3%!

Much of this money goes to a long payroll of government employees, typical of Latin American countries. In 1927 George Roberts thought about a quarter of all government employees could have been discharged “without hampering in the least the operation of the government.”¹⁷ Leland thought it was still the case nineteen years later. In the lean postwar days the state is the chief employer. In fact, the Costa Rican

¹⁷ Roberts Report, National City Bank of New York, N. Y., 1927, p. 20.

official who said, "Our government payroll is our unemployment insurance," spoke for much of Latin America. The spoils system is so strongly entrenched that an official hardly dares cut down jobs; so many are filled by poor relatives, mistresses, or political hangers-on of important politicians. In fact there is pressure on him to create new ones, even if they are such empty "botellas" ("bottles," as sinecures are called in Panama) that the supposed jobholder never shows up at the office.

This pattern of collection and distribution of public funds is hardly conducive to a healthy economy. It does not mobilize savings, develop agriculture and industry, encourage investment, distribute wealth or raise the purchasing power of the masses. Tax policy, tariff policy, investment policy are all shaped by the government. Thus far they have been shaped according to the dictates of a small clique with vested interests. They will probably continue to follow the same line as long as the government continues unstable and the spoils system dominates political maneuvering. If the growing middle class with its increasing numbers of educated people anxious for reform ever succeeds in reforming the system of public administration, consistent programs may be carried out. As it is now, each new minister abandons his predecessor's plans and announces, in glaring headlines, grandiose projects of his own. Years of reading these jubilant announcements of dreams which never materialize make one skeptical that the government of Panama as now constituted will ever take effective action. Its leaders find their people too easily believe the myth that if only Uncle Sam would send more money and more experts everything would be fine.

This belief is consistent with their historic dependence on good fortune coming to the Isthmus from elsewhere. Just as individual Panamanians dream of their number coming up in the lottery or of a new boom on the Zone to mend their fortunes, collectively they look to the United States to solve their economic problems. Still thinking in terms of huge unexploited natural resources, they cry that all that is needed is capital and know-how to set them on the road to prosperity, and these must come from the United States. They paint glorious pictures of a rosy future for Latin America after it has proper communications systems, roads and railroads, farm and mining equipment, technicians. "In short, a series of helps which the United States is in a position to extend, and which

they must extend in ample and generous form because over a period of years nothing less is in the balance than the economic future of the entire continent." ¹⁸

These pleas, of course, coexist with tirades against dollar diplomacy and Yankee imperialism—the ancient bogeymen of Latin American nationalists. Ricardo Alfaro decried this ambivalence in the political field; he protested against the tendency of some Latin Americans to clamor against Yankee imperialism and when an unsatisfactory dictatorship arose in their country, to demand, inconsistently, that the United States act as a big brother or policeman, and intervene. "We Latin Americans," he said, "must realize that we are the only ones to cure our own evils."

"The casualness with which intelligent Latin Americans can similarly blind themselves to the need for self help in the economic field and put the issue of economic progress baldly up to the United States is a disturbing characteristic of Latin American thinking." ¹⁹

This characteristic is perhaps more understandable in Panama than elsewhere, for no other Latin American country's economy is so closely related with ours. Nonetheless it is the Panamanians themselves who decide how the stream of dollars shall be distributed and invested. Pouring more and more dollars in to line the same pockets is no real solution. Sending down more and more experts whose reports gather dust is even more futile. Only a more stable and enlightened system of public administration which overcomes both nationalism and personal selfishness can solve her problems.

Until that day comes, what is the future of Panama's economy?

On the basis of evidence over several decades we expect that the people will continue to muddle along. Individually, they will dream of hitting the lottery as the final solution of their economic problems. Collectively, they will count on Yankee dollars for defense or construction in the Zone, direct aid or loans, to pour money into the country. They will worry publicly about lack of roads, the need for higher agricultural production, the high cost of living. They will call in foreign experts to diagnose their ills—and if the reports step on too

¹⁸ Editorial, *Estrella*, October 2, 1951.

¹⁹ "Acierto," *op. cit.*

many toes, they will shelve them. Many will start out earnestly to put through reforms; some will succumb to the pocket-lining urge, others quit in disillusionment, while a few will go on, as a few always have, making a gain here and there for the interests of the underprivileged. Industry will go on relying on tariffs and concessions; merchants will go on charging high prices; taxes will continue regressive and badly administered; labor will continue to be poorly paid; the right political connections will go on being the secret of making money.

There will doubtless be changes and slow improvement—but they will probably be due to the pressure of social changes occurring the world over rather than to the determined effort of Panamanians working together for the good of the nation.