

"HARMODIO ARIAS M. AND HIS ECONOMIC PROGRAM."

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Business houses refrained from furnishing our hospitals with medicines and provisions, which were urgently needed, because nobody knew when the Government would pay. And the National Bank had to suspend the services of its foreign loans. As a consequence of all of this the economy of the country was seriously affected. Unrest and distress were reflected in all of the activities of the country.<sup>1</sup>

With these words Harmodio Arias explained the economic crisis of the Republic of Panama when he became president of Panama on October 1, 1932. Due to these financial problems, the government decided to eliminate a considerable number of public services and reduced salaries for its employees. Since these measures were not enough to balance the national budget, the Arias' administration created a financial program to eliminate ~~the~~ the economic deficit.

This chapter first explains the economic plan elaborated by the Arias' government, in order to face the financial crisis which affected the Republic of Panama. This financial deficit was a result of the world depression during the 1930s and the economic deficit left by the past administrations. The financial program had four steps: 1. Reduce Government expenditures. The authorities wanted to eliminate the Panamanian deficit which diminished the national budget. This means that the government

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<sup>1</sup> "President Arias Outlines Panama's Economic Program." The Panama American. February 8, 1933.

would reduce its public expenditures, such as public works and public salaries. 2. The Law of the Workers and Farmers' Fund. It would help the administration to bring economic aid to the farmers 3. Commercial and industrial aid to Panamanian businessmen. This measure would encourage industrialization and the elimination of imported products which Panama could produce. 4. Purchase by government of the farmers' crops. The intention of the authorities was to bring more confidence to the farmers in order to increase national production. The third and fourth steps would try to reduce the importation of basic products. The last part of the chapter examines the political frictions within the Arias' administration that hindered his economic program.

As its first measure in cutting government expenditures, the government decided to reduce salaries to its employees. It also diminished public services such as construction of public building and road construction. Law 11, enacted in September 1932 provided the legal authorization to enforce these measures. Furthermore, instead of expending \$650,000 every month on public works, as in past administrations, the Arias' government spent only \$485,000. That amount included the sum of \$130,000 devoted to servicing the public debt.<sup>2</sup> However, despite the reduction in expenditures the government still had economic problems.

In addition, the Arias Administration, knowing the financial

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<sup>2</sup> The Arias administration paid more than \$5,000,000 on public debt, of which \$2,808,497.23 was applied to the internal charge, and \$2,383,688.86 on the foreign debt. The President also pointed out that monthly expenditures were reduced to \$165,000. Ibid. p. 2.

crisis of the Banco Nacional, introduced several strategies to increase bank revenues. For example, the government authorized the National Bank to receive in payment its bonds or accounts which the government had not been able to pay. The measures taken to avoid bankruptcy included the provision of sums to be lent not only to official and semi-official businesses, but also to private industries.<sup>3</sup> During the Arias administration the mortgage outstanding bonds were reduced from \$3,100,000.00 to \$980,000.

As an additional measure for reducing expenditures, the government, on February 8, 1933, presented its budget for the period January 1, 1933 to December 31, 1934. This budget was balanced at \$11,848,945.06 for the biennial period.<sup>4</sup> The budget was about \$5,900,000 per year.<sup>5</sup> The 1933-34 budget contemplated the full payment of the interest and amortization on the external and internal debt. Panama expected to liquidate the floating internal debts at the rate of \$50,000 per month.<sup>6</sup> Article 9 of

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<sup>3</sup> During the Arias administration the mortgage bonds outstanding was reduced from \$3,100,000.00 to \$980,000.00. (Arias, p. 907).

<sup>4</sup> See Appendix. Table 1.1 Republic of Panama. National Budget. Fiscal Years: July 1929-February 1931 to January 1939-December 1940.

<sup>5</sup> The budget for the biennial period of 1931-1933 was estimated at \$18,500,934 or about 9,250,000. per year. (H. D. Finley, Chargé d' Affairs a.i. to Secretary of State Henry Stimson, 14 February 1933, Record Group 59, Decimal File 819.51/1, National Archives, Washington D. C.).

<sup>6</sup> For the services of the external debt, there would be \$2,071,250 and for the internal obligation, \$1, 200,000.00. (Ibid).

the Budget Law authorized the Comptroller General to reduce the salaries of public employees if he discovered a deficit within the national budget. These deductions would be considered a part of the national debt.<sup>7</sup>

On December 27, 1934, the government sanctioned the national budget to the biennial period January 1, 1935 to December 31, 1936. The total amount was \$12,614, 407.42.<sup>8</sup> Compared with previous ones, the national budget during Arias' administration was excessively low. For the period of March 1931 to December 1932, for example, the budget was \$18,297,907 for only 22 months. However, during the four years of the Arias presidency, the biennial budget was for 24 months. The national budget was \$11,848,945 for the period of January 1933 to December 1934, and \$12,614,407.42 for the period of January 1935 to December 1936. This means that the monthly average was \$109,250, \$120,432 and \$144,988, respectively.<sup>9</sup>

As a collateral measure to improve revenues, the Arias' government decided to carry out more taxes. The authorities expected that this taxation could improve the fiscal condition and thereby the financial crisis. The government, for example, charged taxes on the business carried on by shipping companies

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<sup>7</sup> Article 9, Gaceta Oficial de Panama. February 8, 1933.

<sup>8</sup> Gaceta Oficial. Panama, Republic of Panama. January 11, 1935.

<sup>9</sup> See Appendix, Table 1.1. Republic of Panama: National Budget. Fiscal years: July 1929-February 1931 to January 1939-December 1940.

that brought cargo and passenger to the country. The government put additional duties on the tax of sugar production and increased duties on gasoline, tobacco, and cigarettes. The government, however, tried to make sure that these measures did not damage Panamanian consumers. In spite of that, the authorities reduced its expenses; the revenues hardly cover government obligations. Due to this low income, the Arias' administration could not confront the most important difficulty that Panama had: the problem of unemployment. The easy way seemed to be the improvement of public works. Nevertheless, to obtain this goal, the government had to add new taxation system. Thus, as a temporary solution, the National Assembly issued the Law of the Worker's Fund.<sup>10</sup> However, as Arias said, that policy was insufficient if the authorities did not take other actions. Thus, banks lowered their rates of interest to 6 per cent, and the Banco Nacional of Panama, during 1934 -36, lent more than half million balboas. These measures stimulated private enterprises. For example, private construction increased in Panama City and Colon. In the former, the building carried on in 1934 was valued \$575,200, in 1935, \$747,763 and in the first six months of 1936, at \$590,346. The value of building in Colon was \$202,055,

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<sup>10</sup> By Law 49 of 1934, it was decreed that all persons residing or doing business in the Republic of Panama were charged with a tax from 1/2 to 5 per cent of his salary monthly. Its annual yield was calculated at 250,000.00 balboas. Its proceeds were designed exclusively to provide employment for the workers in the city and to promote agriculture. (Horacio Alfaro, Secretary of Finance and the Treasure. Bulletin of the Pan American Union. Vol. LXX. January-December, 1936. p. 216).

\$213,705 and \$366,922 respectively.<sup>11</sup> According to George T. Summerlin, the American chargé in Panama, the increase in construction from 1934 to 1935 was 93 per cent.<sup>12</sup> In addition the government started the construction of several public school buildings such as Pedro J. Sosa, Escuela Republica de Mejico, and the reconstruction of the public market. On January 5, 1935, the government issued Law 9 which stated that all commercial, agricultural, or industrial companies in Panama had to employ at least 75 per cent of Panamanian workers.

Another measure linked with unemployment and the possibility to resolve the economic crisis of Panama went through exploitation of the land. The Arias' government decided that the country farmers should go back to the land by establishing an agricultural colony.<sup>13</sup> The authorities also forced vagabonds and the unemployed in the two terminal cities -Panama and Colon- from the provinces to return to their homes.<sup>14</sup> According to H. D. Finley, the Panamanian government expected to spend some of the funds collected from the workers and farmers tax in aiding agriculture. The Bureau of Agriculture and Industries promoted

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<sup>11</sup> President Harmodio Arias. Biennial message to the National Assembly on September 1, 1936. In Bulletin of the Pan American Union. Vol LXX. January-December, 1936..p. 908.

<sup>12</sup> George T. Summerlin to Secretary of State. Record Group 59. April 15, 1944. (819.5011/12). p.2.

<sup>13</sup> Villa del Carmen (1933) and Villa del Rosario (1935) in Capira district and Rio Congo in Chorrera district (1934), were examples of these program.

<sup>14</sup> H. D. Finley to Stimson, 10 August 1933, Record Group 59, Decimal File 819.00/91, National Archives, Washington D. C.

the growing of rice and sugar cane. In addition, the government built plants for hulling rice in some provinces. Furthermore, the Panamanian authorities encouraged the importation of selected seeds for free distribution among farmers and for experimentation.<sup>15</sup> According to President Arias, one of the most successful activities was the rice-growing campaign, to make it unnecessary for the country to import these items.<sup>16</sup> Furthermore, farmers assured of markets for their crop and to obtain good seeds. In addition, the government gave information about methods of cultivation and provided rice mills.<sup>17</sup> The National Assembly empowered President Arias to buy lands and to make grants to farmers unable to acquire their own farms.<sup>18</sup> Under this legislation, the government distributed about 250,000 acres of land through the Agrarian Board, an entity established by Decree No. 100, on August 29, 1935.<sup>19</sup> This measure intended to resolve unemployment and the existence of uncultivated or abandoned land in Panama.

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<sup>15</sup> At that time, four experimental farms were built. One at Santiago, Veraguas, another in the district of Las Tablas, Los Santos; a third at Aguadulce, Province of Coclé; and a fourth at David, province of Chiriquí.

<sup>16</sup> By the year 1953, the importation of rice ended. (Menalco Solís. "La Agricultura de Panama en Cincuenta Años de vida Independiente". In Panama, 50 Años de Republica, Edición de la Junta Nacional del Cincuentenario, 1953, p. 370).

<sup>17</sup> President Arias. p. 906.

<sup>18</sup> Laws 20 and 23 of 1934 empowered President Arias to take this action.

<sup>19</sup> President Arias, pp. 905-6.

To protect the farmer's work, the government maintained the tariff as high as possible on the articles that could be produced in the country. Laws 42 and 69 of 1934 gave protection to commerce and industry in Panama. This legislation exempted from import duty articles suitable for sale to tourists and those other articles which Panama could not produce. However, they imposed duties on every item which could be either manufactured or grown nationally. Furthermore, "these laws promote the establishment of plants for processing and distributing foreign products."<sup>20</sup> These initiatives sought to stimulate agricultural and commercial activities. In an interview on May 8, 1933, President Arias explained that products such as eggs,<sup>21</sup> lard, rice, and other items that do not require much capital to be produced in Panama, would have high tariff duties. That measure would encourage national production and an increase on farmers' income.<sup>22</sup>

The Arias Administration also initiated a policy of credit expansion in order to encourage the development of industries in Panama, especially in the agricultural field. The policy to

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<sup>20</sup> Alfaro, p. 215.

<sup>21</sup> By 1936, Armour & Company had a contract to introduced 1,500 eggs into Panama and Colon monthly. Due to the high taxes on the importation of eggs, Albert Bwy, acting manager of Armour and Company, protested that his company would be unable to pay \$18,250 monthly to bring eggs in to Panama for "Hold for Holders" business. Some of this quantity of eggs were resold into the Canal Zone. (Star & Herald. October 28, 1933).

<sup>22</sup> Salomon de la Selva, "An Interview with President Arias," The Panama American. May 8, 1933.

protect national production and the credit expansion intended to foment import substitution. As in the rest of the Central American countries, in Panama import-substitution took place more in agricultural than industrial commodities. In this sense, there was an agreement with the foreign banks and the National Banks to simplify credits for Panamanian businessmen.<sup>23</sup>

Besides economic aid for industrial and commercial businessmen, the Panamanian authorities thought that it <sup>is</sup> important that these producers find a safe market to sell their products. Thus, another step taken by the national government was to purchase the products of Panamanian farmers. This measure was very important for the coffee growers of Boquete Chiriqui. A considerable portion of the money raised by the bond issues floated by the Banco Nacional before the Great Depression, for example was relaned to agriculture. The government gave large amounts of these loans to coffee growers in Boquete district, in the province of Chiriqui. Nevertheless, due to the poor market for coffee during the month of July 1933, many coffee growers could not pay their debts to the bank.<sup>24</sup> In order to face the

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<sup>23</sup> The National Bank, during 1934-36 was able to lend more than half a million balboas to stimulate private enterprise. Furthermore, in 1935, the Junta Asesora de Agricultura empowered the manager of this institution to encourage rice production in Chepo district. The rice growers received aid of \$11,000.00 to grow rice and banana. (Solis, p.368).

<sup>24</sup> It was known that one coffee plantation of 14,000 trees yielded the owner only \$103,00 profit in 1933, after he had paid the salary of the manager, for trees cleaning, the cost of pruning, replanting, repairing equipment, harvesting and the estate tax. (Ibid). One of the reason from the coffee growers was the fell of the coffee price in the international market after

coffee growers' financial difficulties in July 1931, President Arias sent Albert Vallarino as his special representative to meet with the coffee growers' committee. Vallarino and the coffee growers would try to find a positive solution to the coffee problem. In their meeting, the coffee growers claimed that there was \$200,000 indebtedness largely held by the Banco Nacional against their farmers. Thus, they asked for "a credit of \$80,000 from the bank or another source at a reasonable interest rate. They also asked for the stabilization of the price of coffee at \$20 per hundred pounds in place of the present \$12 price." <sup>25</sup>

After the meeting between Vallarino and the coffee growers, the government gave the farmers a moratorium on their debts for the rest of the year. Furthermore, the Banco Nacional agreed to allow growers \$5 down on each quintal of raw coffee delivered to it; the bank would try to market their product. The terms arranged were as follows: the Banco Nacional would appoint an agent at Boquete to receive the Boquete coffee growers' product in whatever form these producers wished to deliver it. For each can full of coffee -in- the- bean delivered the coffee growers would receive 25 cents, the coffee to be delivered to stations suggested by the bank. For each 120 pounds of coffee in other stages of preparation the bank would advance \$5.50. Coffee ready to be marketed would receive an advance of \$6.00 for 100 pounds.

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1929. (Victor Bulmer Thomas. The political Economy of Central America since 1920, Cambridge, Cambridge University Press, 1988, p 49).

<sup>25</sup> Star & Herald, October 28, 1933.

In whatever form the coffee could be delivered the new bags required shall be for the account of the bank.<sup>26</sup> In the event that creditors other than the Banco Nacional presented their claims against the growers, the government would extend a government moratorium to cover them as well.

On August 10, 1933, under the above arrangement, the Banco Nacional agreed to "advance 20 cents per can of coffee in the bean, \$4.00 per 100 pounds of coffee unskinned and \$5.00 per hundred weight of cleaned coffee delivered." <sup>27</sup> The contract stated that after the bank sold the coffee, the amount advanced would be deducted. The remaining profits would be divided equally between the producers and their creditors, if there was any of them. Through these measures the Arias administration brought important issues to improve Panamanian production. During the same year, Samuel Lewis, Panamanian capitalist, urged Secretary of Agriculture and Public Work Alejandro Tapia to create central market depots in Panama City. These markets would handle the products of the interior in order to see to it that the small

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<sup>26</sup> Ibid. In 1933, the Boquete harvest was expected to yield about 1,600 quintals of coffee. If the stabilized price of \$20.00 could be secured, coffee growers claimed they could have a coffee income of \$320,000. That profit would be enough to tide them over the depression and would make it possible for them to clear themselves of debt in the course of about three years. In addition, coffee growers aspired to have the government establish a coffee bureau to secure price stabilization and coffee growers' credit aid. Despite the fact that they did not get all of they wanted, the new policy of the government toward the agriculture issued helped them a great deal. (Ibid).

<sup>27</sup> Seldon T. Mills, Third Secretary of Legation to Secretary Stimson. Panama, September 6, 1933. Record Group 59 (819.51).

farmers received a reasonable price for their products.

During 1931, there was great expectation among Panamanian cattle raisers because that year the contract that Cuba had with the Commissary of the Canal Zone would end. Thus, there was the possibility that the commissary market would be regained by Panamanian producers. The small producers hoped that the Banco Nacional would make a bid for the cattle business of the commissaries and take care of financing and purchasing from small producers.<sup>28</sup> The policy of the Arias government of encouraging the small producer in the Republic of Panama could bring new hopes for the small cattle raisers during the 1930s.<sup>29</sup>

President Arias was also concerned about the role that small producers could play in the development of the Panamanian economy. On August 23, 1933, he visited thirteen factories in Panama City. These factories manufactured candies, shoes, confetti, sausages, preserves, hats, tiles, cigarettes, breads and pastries. After that visit, Arias congratulated the producers for their initiatives and for their helping diminishing unemployment in the country.

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<sup>28</sup> In the interior provinces there was considerable bitterness between the large beef producers who controlled the Panama City market and secured high price for butchered meat, and the small cattle men who, it was claimed, were paid a mere pittance for their beef on the hoof. Furthermore, it was reported that when the "trust" supplied the commissaries at the Canal Zone, Panama City was left for the small producers (Ibid).

<sup>29</sup> In 1936, there was an estimated 450,000 cattle in the country, most of them was used domestically. (United States, Tariff Commission. Washington, 1949. Mining and Manufacturing Industries in Panama. p. 2).

To improve commerce in Panama, the government created the "Hold For Orders merchandise" to sell several products in the Canal Zone.<sup>30</sup> Merchants who used the system of "Hold for Orders Merchandise" paid only consular fees and a 1/2 per cent for the expenses of the service. Thus, during the first six months of 1936, the government received from this business the sum of \$30,000 in consular fees and \$5,000 through the one-half per cent.<sup>31</sup> This service helped to resolve Panamanian unemployment because the merchants used Panamanian workers and spent some money on transportation expenses.

Despite the fact that the depression eliminated a significant number of public works, the government kept to its policy of improving the Panamanian education system and increased its budget in this area. For example, while the percentage in education during the fiscal year of January 1933 -December 1934 was 22.1 per cent, for the fiscal year of January 1935-December 1936 it was 22.9 of the total national budget.<sup>32</sup> Furthermore, during the years 1935-1936, the number of teachers increased from

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<sup>30</sup> This service was established by Decree No. 153 of November 16, 1933. By this measure, merchants established in Panama would supply various entities of the Canal Zone with numerous articles which were formally supplied by the Zone commissaries.

<sup>31</sup> Report of the Sub-Comptroller in charge of the office of the Comptroller General of the republic of Panama to the National Assembly, September 1, 1936. In Record Group 59, Decimal File 819. 51 A/105, National Archive, Washington D. C.

<sup>32</sup> See table 4.3. Educational Budget. Fiscal years: July 1929-february 1931 to January 1939-1940.

1,525 to 1,816.<sup>33</sup> Despite the number of schools during the years 1932-1933 to 1936-1937 it raised slightly, from 556 to 571, and the personnel increased from 1,391 to 1,652. The number for students attending primary school rose from 47, 820 to 54,078 during the same period.<sup>34</sup>

The emphasis put on education during the whole decade of the 1930s produced an increase in the number of people attending primary, secondary, and university schools. In 1930, for example, the number of persons attending primary school was 186,852; in 1940 this total rose to 260,836. Thus, it was an increase from 55.4 to 63.8 per cent of people attending primary school.<sup>35</sup> The increase in secondary school was from 12,336 in 1930 to 35,011 in 1940. The percentage was 3.7 and 8.6 respectively.<sup>36</sup> The number of persons attending universities in 1930 was 2,809, while in 1940 it was 3,544. There was an increase from 0.8 to 0.9 of students attending university education.<sup>37</sup> During the 1930s the number of people attending public education increase.<sup>38</sup>

During the Arias administration, the value of imports and exports increased as follows. From 1933 to 1934, there was an

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<sup>33</sup> Arias Harmodio. p. 906.

<sup>34</sup> See appendix. Table 1.2

<sup>35</sup> See appendix, table 3.1

<sup>36</sup> Appendix, table 3.2

<sup>37</sup> Appendix, table 3.3

<sup>38</sup> The whole Panamanian population in 1930 was 467,459 and in 1940 it was 622,576.

increase in the value imports of \$4,152,062.59. The value of imports in 1933 was \$9,396,320.07, and for 1934 it was \$13,448,383.66. This increase proved that Panama was emerging from the economic depression of previous years. For example, the value of imports in 1932 amounted to \$8,899 and of exports \$2,061 but, in 1936 the value of imports was 18,990 and, the value of the exports was \$7,460.<sup>39</sup>

During the early 1930s, and especially after 1933, the value of imports from Japan began to grow. The United States, however, remained as the main supplier of Panamanian imports.<sup>40</sup>

The coup d' etat which occurred on January 2, 1931 in Panama had several detonating elements. One of them was the negative effect of the world depression on the Panamanian economy. Another was the political and economic corruption within the Florencio H. Arosemena government. And last, there was the economic deficit and the fear of fraud in the 1932 elections. However, unlike the others Central American countries, where strong caudillos took control of the government, in Panama, overthrew the oligarchy did

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<sup>39</sup> Appendix, table 5.1

<sup>40</sup> The percentage of Panama's imports furnished by the United States and Japan was as follows:

<u>Year</u>	<u>United States</u>	<u>Japan</u>
1933	57.16	8.46
1934	52.11	12.14
1935	55.51	11.68
1936	51.49	15.71

Thus, the exit of Japanese importation to Panama seemed to be its lowers prices, compared with those from the Unites States on the items. Panamanian exports to Japan, during 1933, 1934, and 1935 were nil, and only \$375 in 1936.

not bring an individual caudillo to lead the government.<sup>41</sup> This absence of single person leadership caused a split within the group who overthrew the Arosemena government. Due to this division, the governments which came after the coup had to deal with political conflict within their own followers.

As a result of the split within the Liberal Party after 1931, during the 1932 elections, the stronger candidates to the presidency were two former members of the Accion Comunal. That election brought into the government the Democratic Liberal Party led by the faction of Harmodio Arias. The Reform Liberal Party commanded by Francisco Arias Paredes went into the opposition. Due to the election scheduled for 1936, political frictions between the former members of Accion Comunal arose again. These controversies, this time, were not only between the political opposition and the government but also within the own ruling party. For Example, Domingo Diaz A. and Enrique A. Jimenez components of the Doctrinary Liberal Party wanted-

response to this government decision, Jimenez's supporters formed a distinct political entity, the Democratic Doctrinary Liberal Party and united behind the candidacy of A. Jimenez.<sup>42</sup> Thus, there were two candidates within the same political group. Nevertheless, it seemed that president Arias did not want either Diaz nor Jimenez to be their successor. This Arias' hesitation to select his candidacy provoked that in 1935, his brother -in- law, Aurelio Guardia, chief of the police force, tried to overthrow him from office.<sup>43</sup> After the frustrated intent of coup, Arias decided to choose his own candidacy, despite the decision of the Directory of the Doctrinary Liberal to select Diaz. To do that, Harmodio and his brother Arnulfo decided to organize the National Revolutionary Party. After its organization, this party nominated Dr. Juan Demostenes Arosemena, Secretary of Foreign Relations in

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<sup>42</sup> Fayette J. Flexer, Chargé d' Affairs ad interim to Secretary of State Cordell Hull, 8 November 1935, Record Group 59, Decimal File, 819.00/1758, National Archives, Washington D.C.

<sup>43</sup> Aurelio Guardia was anti-Diaz and supported Enrique A. Jimenez. Guardia also thought that president Arias was under influence of Diaz faction, and he tried to remove Arias from the presidency to denied Diaz the presidency. There is another theory over that causes of the intent of coup. The Guardia Family, which included Tomas Guardia, chief of the Central Roads Board, decide they would rather have Octavio Mendez Pereira as presidente than Harmodio Arias. Both, Pereira and Arias were married to Guardia's sisters. After the police revolt had been carried out, Enrique Jimenez, the first Designate, would have taken Arias' place as President for the remainder of his term. After this year, they planned to elect Mendez Pereira as president. Nevertheless, this intent of coup was unsuccessful and Guardia was withdrew as a chief of the police force. (Ibid)

Arias' Cabinet.<sup>44</sup>

The Arosemena nomination had two legal problems to resolve before the Electoral Jury. On December 22, 1935, this body, controlled by Diaz' faction, decided that the designation of Arosemena was illegal. It was unlawful because Arosemena did not resign before the six months period before the day of the election, as determined by the Panamanian law. In Panama it was a requisite to be candidate for a public position. The other problem which Arosemena had was the legitimacy of the National Revolutionary Party which would support him during the 1936 election.<sup>45</sup> On January 16, 1936 the National Electoral Jury decided the illegitimacy of the National Revolutionary party, but its followers decided that they would go the poll on June 7. Due to Arias' rejection to select one of them as the official candidate and the formation of the National Revolutionary party, Enrique Jimenez formally withdrew in favor of Domingo Diaz.

On January 2, 1936, Accion Comunal organized a public march to protest against the candidacy of Juan D. Arosemena as "an imposition upon the republic and as a reversion to Chiarismo"<sup>46</sup>,

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<sup>44</sup> This Arias decision had repercussions into the Panamanian society and within Doctrinary Liberal party since the two previous candidate, Jimenez and Diaz, were rejected by the President. Instead of choosing one of the two previous candidate, Arias selected Juan Demostenes Arosemena.

<sup>45</sup> The illegality of the party, was said, lay in the party used different names (National Revolutionary Party, National Revolutionary Coalition, National Coalition) during its inscription. (Ibid).p.8

<sup>46</sup> The Rodolfo Chiari party which was overthrew from power on January 2, 1931.

had promised to follow the Arias' policy as president. The immediate responsibility that he had was the ratification of the Hull-Alfaro treaty, 1936. The success or the failures of treaty's was very important to Panama. This country, since 1934, did not have received the annuity of the Panama Canal. The new treaty would increase the compensation that the United States would pay to Panama from \$250,000 to 430,000 annually.<sup>51</sup>

Washington, on the other hand, argued that as soon as the treaty could be ratified, Panama would receive its money. Thus, Arosemena had to battle strongly against those who, in Panama were against the Hull-Arias treaty.<sup>52</sup> Furthermore, Arosemena had the responsibility to continue and improve the Arias' policy to resolve the problem of unemployment and to increase the Panamanian revenues. In addition, it was important to the government to consolidate the Liberal party if Arosemena wanted to be successful during his administration.

In summary, President Harmodio Arias started an economic program which had four phases in order to improve the Panamanian

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Washington D. C.

<sup>51</sup> Panama since 1933 had been unable to paid the interests in its foreign debts. One of the reason was the fact that it had not perceived its payments from the United States.

<sup>52</sup> In Panama there was a strong opposition against the Alfaro-Hull treaty for two reason. First, because many Panamanian thought that the new treaty would engage Panama in future conflicts were the United States participated, endangering the security of Panama. Second, for political reason. In 1936, Panama would hold election for president. The opposition to the government wanted to obstruct the ratification of the Treaty as a way to defeat the government.

as opposed to the ideals of the revolution."<sup>47</sup> Thus, in the coming election, Accion Comunal which had supported Harmodio Arias during the 1932 election would oppose Arias' candidate in 1936. The break between Arias and Accion Comunal coincided with the link of the former with J. D. Arosemena -a wealthy man- strongly linked with the old oligarchic families.<sup>48</sup>

The other political parties, members of the ancient regime deposed on January 2, 1931, unified to supported Dr. Belisario Porras as their candidacy to frustrate the presidential intentions of Arosemena. <sup>49</sup>

The election scheduled took place on June 7, 1936. There were three candidates, Juan D. Arosemena, Domingo Diaz A. and Belisario Porras. Arosemena won this election for 1,765 votes over Domingo Diaz. Thus, he was the Arias' successor.<sup>50</sup> Arosemena

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<sup>47</sup> Ibid. p. 8.

<sup>48</sup> Full information relating to the disagreement between Accion Comunal and the Arias administration can be found in the inform of George T. Summerlin to the Secretary Hull, 17 January 1936, Record group 59, Decimal File 819.00/1773, National Archives, Washington D. C.

<sup>49</sup> The parties of the old Liberal faction were United Liberal Party, Reform Liberal Party and the National Liberal. All of them Joined around the Porras candidacy in the 1936 election.

<sup>50</sup> The problem of the illegality of the Arosemena candidacy was resolved by president arias through at decree which replaced Rogelio Navarro, Diaz follower. Thus, the Arias administration had a majority within the National Electoral Jury. There were seven members. Before of July 1, 1936, Diaz a majority of 4 to 3, but after Navarro was unseated by the government on July 1, Arias had control over this institution. Thus, the Electoral Jury declared on July 8, 1936 Juan D. Arosemena winner in the pass election. ( Summerlin to Secretary of state Hull. 10 July 1936, Record Group 59, Decimal file 819.00/1858, National Archives,

revenues, resolve unemployment, and substitute importation. To achieve these mearues, Arias introduced a new taxation system to gain funds to hire workers in public jobs and to encourage farmers' production. This policy would increase Panamanian production, while reduced the importation of these articles which could be produced in Panama. This was a program of substitution of importation, but focused primary in the agricultural field -as was the characteristic of other Central American States-. To encourage commercial activities, Arias allowed Panamanian businessmen to sale several items in the Canal Zone through the program "Hold For Order Merchandise." Despite the policy of limited public expenditure, the Arias' government improved public education. The inauguration of the University of Panama allowed Panamanian middle class to go into university career and to increase the number of Panamanian professionals. This newcomer group also had political aspirations and began to challenge the traditional political parties. However, as the rest of the Latin American countries, Panama felt the effects of the world depression. Like the rest of Latin America, during the 1930s, Panama was unable to pay its foreign obligation with the International banks.

President Arias' policy intended to gain some revenues to resolve the internal problems left for the oligarchy such dealt with unemployment and the economic deficit. Political frictions within the Liberal party, however, hindered his program. President Arias himself fell victim of these political

confrontations. He was criticized by Accion Comunal, the middle class organization which led the coup in 1931 and brought strong support to Arias during the election in 1932. During the 1936, it seemed that Harmodio Arias had arrived an agreement with the oligarchy, a social group which he in 1931 helped to overthrow.

Dr. Arias' successor had the responsibility to culminate the Arias program but, to achieve this goal, Panama had to receive the payment from the Canal annuity. Once again, Panama felt the influence of the Canal Zone in its economy. Thus, Panamanian authorities demanded the ratification of the Hull-Alfaro. The canal annuity would increase its revenues and gain economic benefits from the canal activities.

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