

DIPLOMATIC RELATIONS BETWEEN THE
UNITED STATES AND PANAMA
1903 - 1928

by

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PREFACE

Since the closing of the World War, the attention of the United States has been diverted more and more from the European countries to those of Latin America. The relations with her southern neighbors constitute one of the most urgent and most difficult of the regional foreign problems of the United States. Because of the strategic and commercial importance of the Panama Canal, Americans have been particularly interested in the Republic of Panama. There is need of information and discussion of national aims so that a broadminded understanding may result.

This study has been made with the purpose of reviewing the diplomatic relations of the United States with Panama since the leasing of the Canal Zone by the former. Thus the period studied is from 1903 to the present time.

An endeavor has been made to ascertain if the United States has been actuated by imperialistic motives in her dealings with this country, and, if so, to what extent. The study is intended neither as an indictment nor an apology.

Accounts of the relations between the two countries have been written but none with a continuous story of this phase of the subject. An effort has been made to trace the relations in a connected and unbiased manner so the reader will be able to understand the history of the period without using supplementary source material unless desired. As far as available, first-hand sources have been used. Proper acknowledgment has been made for data taken from secondary sources.

I desire to express my gratitude to the librarians of the Kansas State Agricultural College for their direction in the use of both primary and secondary material found in the college library. I am also grateful for information, gained through personal correspondence, from such organizations as the Pan-American Union, La Prensa, Duke University Press, and the Foreign Policy Association. My sincere thanks are due Dr. F. A. Shannon of the History Department for his able assistance in the preparation of the manuscript.

I.

NEGOTIATIONS CONCERNING THE CANAL

The extension of the power of the United States in Central America and the Caribbean area has been one of the most salient factors in the history of American expansion. This began after our first imperialistic war in 1898, and has thrust itself on toward Panama, which has come to be known as the American Gibraltar.¹ Since the dawn of history, man has been on a quest of adventure. For the love of romance he has fared forth to strange and unknown lands. But, especially in the last century or two, deeper motives have propelled his activity. Besides that of political aggrandizement, there has arisen the lure of business, of commercial enterprise. Political regulation for strategic gains and national safety has played a big part, but it must be conceded that commerce has done its share.

The United States is recognized as the protector of the minute Republic of Panama. The establishment of this

1. Scott Nearing and Joseph Freeman, Dollar Diplomacy (New York, 1923), p. 263.

relationship has been the results of the situation brought about by the negotiations for leasing the Canal Zone. In order to understand the basis of our diplomatic relations, it will be necessary to summarize the steps in securing the canal route between the Atlantic and Pacific oceans. The need of a canal has been apparent since the days of the Pizarro brothers when the silver mines in Peru were opened. Various companies, organized under their respective governments, attempted in the Eighteenth Century to build a canal, but practically nothing came of their ventures. In 1835, the United States Senate passed a resolution favoring an American canal. Charles Biddle negotiated a treaty with Nicaragua but it was rejected by his country.

The negotiations of the United States group themselves into three divisions:

1. Those with Great Britain culminating in a treaty drawn by John Clayton and Sir Henry Lytton Bulwer in 1850; and one by John Hay and Julian Pauncefote in 1901.

2. Those with New Granada in 1846, and those made with Colombia by John Hay and Dr. Tomas Herran in 1903, the latter resulting in a treaty that was rejected.

3. Those with Panama concluded by the treaty drawn by Hay and Philip Bunau-Varilla in 1903. ²

The rivalry with Great Britain was primarily over something that did not exist -- an inter-oceanic canal. Neither country expected to own the canal outright but it was difficult to reach a satisfactory agreement. By 1849, Great Britain controlled the entire Atlantic seaboard of Central America. In that year, Elijah Hise succeeded in signing a convention giving the United States certain rights in the Isthmus, but since these seemed contrary to British claims, our government was not ready to back the treaty. ³ However, in 1850, the Clayton-Bulwer treaty was signed. Its main provisions were for a canal built by private capital and under the political control of the two countries and such other powers as might unite with them in securing neutralization. Neither party was to get exclusive control, and the citizens of each were to have equal rights. The Dallas-Clarendon treaty of 1856, which

3. Charles E. Hill, Leading American Treaties (New York, 1922), p. 347.

3. Graham H. Stuart, Latin America and the United States (New York, 1922), p. 61.

attempted to remedy some difficulties of interpretation, failed of ratification in England, as did also another treaty in the following year.⁴

The war of 1898 brought the United States out of its seclusion. No longer was it to isolate itself from the affairs of the world. On the contrary, with possessions now in the Far East, increased power in the Caribbean, and a growing navy, it was destined to play a greater part in world politics. The idea grew that the Clayton-Bulwer treaty was hampering the fulfillment of aspirations looking southward. In 1899, Secretary Hay approached Great Britain for modifications of the convention. The result was, after protracted wrangling, the Hay-Pauncefote treaty of 1901.

In this, the United States was given the complete right to construct, operate, and regulate a canal, and to maintain the necessary military fortifications and forces. The canal was to be open to all vessels of all nations without discrimination or inequality of tolls. As shall be seen later, there was a great deal of diplomatic conflict over the interpretation of parts of this treaty.

4. Ibid., p. 63.

The negotiations of the United States with Colombia begin with the 1846 treaty with New Granada, of which Colombia was then a part. Under the terms, New Granada granted to the citizens of the United States equal rights with its own in respect to any mode of transit across the Isthmus.⁵ In turn the United States guaranteed the perfect neutrality of the Isthmus and New Granada's rights as sovereign and owner of it. Several times during revolutions, the United States intervened under the provision that the way of transit was to be kept open.

In the beginning of the Twentieth Century, definite plans were being made by our country for a canal. The John G. Walker Commission reported in favor of the Nicaraguan route, but the offer of the French Canal Company, which, under Ferdinand De Lesseps, had attempted to build a canal, gave the advantage to Panama. It may never be known just what motives actuated Philip Bunau-Varilla, a Frenchman residing in Panama, to strive so earnestly for the Panamanian route. Certainly he helped to make American history by carrying his campaign to France, so that the French company would fix a more reasonable price.

5. Richard Olney, "Panama Canal Tolls," in Senate Documents, 63 Cong., 1 Sess., Vol. XX, No. 33, p. 3.

In the United States, he worked against a hostile public opinion. On May 6 and May 14, 1902, it was reported that volcanoes had broken out in Nicaragua. The President of that republic said the reports were false. Bunau-Varilla purchased from the Post Office Department all available Nicaraguan stamps of 1900. These showed, among other things representing their nation, active volcanoes.⁶ Certainly these would be proof of the danger to a canal in that country, so a stamp was sent to each senator. The tide of opinion turned, and Panama was chosen as the route for the proposed canal.

Quite early in 1902, Congress passed an act providing for the construction of a canal across the Isthmus. The President was authorized to secure the property of the French company and perpetual control of the necessary strip of territory within a reasonable time and at a reasonable price. If the endeavor failed, the adoption of the Nicaraguan route was authorized. The canal company reduced its price because the United States threatened to go by

6. New York Times, September 13, 1925, Sec. IX, p.10, c. 1-8.

way of Nicaragua. ⁷

On January 22, 1903, the Hay-Herran convention was signed. The United States was granted a ninety-nine year lease over a strip of territory six miles wide across the Isthmus. For this she was to give Colombia \$10,000,000 and an annual rental of \$250,000. On August 12, the Colombian Senate refused to grant the concession, and had not yet ratified the treaty when Congress adjourned October 31. The main reason for the opposition, as given by a Colombian, Paul Perig, is that neither the Colombian executive nor an ordinary congress could constitutionally ratify a treaty involving a session of territory to a foreign power. Then, too, the majority of the Colombians disliked the idea of the dismemberment of their fatherland, while ⁸ some thought they could get better terms. ⁹

7. Theodore Roosevelt, "How the United States Acquired the Rights to Dig the Panama Canal," in Senate Documents, 63 Cong., 2 Sess., Vol. 27, No. 471, p. 5-75.

8. "Colombian View of the Panama Canal Question," in North American Review, Vol. CLXXVII (July, 1903), p. 63.

9. Samuel Guy Inman, Problems in Pan-Americanism (New York, 1925) p. 279; "Panama," in Foreign Policy Association Information Service, Vol. III, No. 23 (January 20, 1928), p. 354.

The effect of the rejection of the treaty was the Panamanian revolution and a rupture in Colombo-American relations. In May, before the Colombian Congress met, there had been talk in Bogota of a revolution and the secession of Panama, in case the Hay-Herran treaty failed to pass. Some delegates from that province were indifferent toward the treaty because they preferred to seek their own independence. The President and Congress tried to get England or Germany interested in a canal, but fortunately for the United States, those countries were, at that time, desirous of maintaining friendly relations with the United States. The Colombian government was severely attacked for appointing Senor Obaldia as Governor of Panama for he was believed to favor revolution. 10

By October 31, 1903, rumors that a revolution had broken out were current in Bogota. The restlessness of Panama was known in the United States. Dr. Manuel Amador visited the United States, having conference with Secretary Hay as to the advisability of Panama's revolting.

10. Henry Cabot Lodge, "Panama," in Senate Documents, 67 Cong., 1 Sess., Vol. IX, No. 37, pp. 30-35.

Roosevelt was anxious to secure the lease, but did not want to participate in stirring up strife. A. W. Beaupre, United States Minister at Bogota, sent word to Hay that the treaty had not been ratified and that the people there were in great anxiety over conflicting reports of secession movements in the Cauca and Panama. On November 2, the statement was reiterated. Also, on the latter day, the acting Secretary of the Navy cabled the commander of the United States warship, the Nashville, stationed at Colon, to prevent the landing of Colombian troops if in his judgment this would precipitate a crisis. Preparations were being made for the revolution to take place at Panama. Colon was in such ignorance of the situation that Commander Hubbard sent word to the Secretary of the Navy, on November 3, that no revolution had been declared on the Isthmus, but that it was possible it might be made that night at Panama. The next day he could report that the revolution was an accomplished fact.¹¹

At this time, Colombia was ready to ratify the treaty by a martial-law decree or by calling a special session of

11. Nearing and Freeman, op.cit. pp. 79-80.

Congress, but the offer came too late.¹² On November 8, the newly constituted Republic of Panama designated Bunau-Varilla as Minister to the United States to negotiate a treaty. On November 14, the United States announced to the world that it had fully recognized Panama and accredited its Minister. By March 1, 1904, practically all the nations of the world had followed this example.¹³ On November 18, 1903, Hay and Bunau-Varilla signed a treaty quite similar to the one rejected by Colombia.

The treaty consisted of 26 articles.¹⁴ The United States guaranteed the independence of Panama and agreed to pay \$10,000,000 plus annual payments of \$250,000 each during the life of the convention, beginning nine years after the date of ratification. In return, the United States was to receive the same rights and authority in a

12. *Ibid.*, pp. 30-31.

13. Louis Martin Bears, A History of American Foreign Relations (New York, 1927), p. 455.

14. William Malloy, (ed.), Treaties, Conventions, International Acts, Protocols, and Agreements, between the United States and Other Powers, (Washington, 1910), Vol. II, pp. 1349-1357.

canal zone 10 miles wide, as it would exercise were it sovereign of the territory. The terminal cities of Panama and Colon and their harbors were excluded from the zone except the United States had the right to make sanitary regulations there. In order that the final passage of the treaty by our Senate might be assured, Roosevelt on January 4, 1904, sent a special message to Congress reminding it that the status of Panama would not be changed by our failure to ratify the treaty, nor would our obligation to keep open the transit across the Isthmus be lessened. ¹⁵ Ratifications were exchanged February 26, 1904. ¹⁶ It was now time for the engineers to do their part. The canal, according to James Bryce, "the greatest liberty ever taken with nature" was opened to traffic August 15, 1914. The formal opening was July 12, 1920. ¹⁷

During all these years, Colombia was harboring grudges against the United States, feeling that our action

15. Senate Documents, 58 Cong., 2 Sess., Vol. II, No. 53, p. 23.

16. Malloy, op. cit., Vol. II, p. 1356.

17. Parker, T. Moon, Imperialism and World Politics (New York, 1925) p. 427.

had been inadvertent in so hastily recognizing Panamanian independence. Not only did Colombia feel bitter toward this country, but other Latin-American republics began to feel that their elder sister was becoming too powerful in this hemisphere, and encroaching on their rights as independent nations. In order to allay this feeling, Elihu Root endeavored to negotiate treaties among the three countries. Secretary of State, P. C. Knox, proposed that, if Colombia would ratify these treaties, the United States should pay \$10,000,000 for an exclusive right-of-way for a canal by the Atrato route and the perpetual lease of the islands of St. Andrews and Old Providence for coaling stations. The treaties were called the tripartite agreement. The one between the United States and Colombia was negotiated by Root and Don Enrique Cortes, and signed at Washington, January 9, 1909. Colombia was to have freedom of passage of troops and ships of war through the canal. While the canal was under construction, the Panama Railroad was to be used for that purpose. These provisions, however, were not to apply in case of war between Panama and Colombia. Colombian mail and products were to pay only such duties as were paid by the

United States. Panamanian independence was to be recognized.¹⁸ Panama was to pay Colombia \$250,000 a year from 1903-1917 from the cash payments made to that country by the United States. The treaty was rejected by Colombia because she considered the compensation inadequate¹⁹ and desired that the matter be arbitrated. The Department of State of the United States assumed the view that the problems which might need adjustment lay between Colombia and Panama and could not properly be referred to the Hague.²⁰

When Woodrow Wilson came to the presidency, he definitely tried to cement the Americas together in friendship and goodwill, believing that the Latin-American countries had had harder bargains regarding loans and been forced to pay higher interests than European nations.²¹ Yet he felt constrained to continue to a certain extent

18. Malloy, op.cit., Vol.III (Supplement, 1913), pp. 235-238.

19. William Spence Robertson, Hispanic-American Relations with the United States (New York, 1923), p. 183.

20. Ibid.

21. Henrik Shipstead, "Dollar Diplomacy in Latin America," in Current History, Vol.XXVI (September, 1927), p. 932.

the policy of the previous administration. Robinson and West, in their contemporary treatise on Wilson's foreign policy,²² give these three elements as entering into his policy:

1. The Monroe doctrine imposed the obligation on the United States to compel smaller states in this hemisphere to meet their international obligations.

2. The preponderance of American industry required the United States to pay attention to stable government.

3. The obligations of the United States regarding the Canal Zone seemed to force it to forestall any interference by other powers.

The proposition of reaching an understanding with Colombia was again taken up during Wilson's administration, much to Roosevelt's disgust and protest, as he continually affirmed the square thing had been done in dealing with that country. A treaty was drawn up by Thaddeus A. Thompson, Minister of the United States to Colombia, and Francisco-Jrrotia, acting for his country on April 6, 1914.

22. Edgar S. Robinson and Victor J. West, Foreign Policy of Woodrow Wilson (New York, 1917), pp. 117 et. seq.

Its purpose was to restore cordial friendship between the two countries. The terms of the treaty were practically the same as the Root-Cortés agreement of 1909.²³ Colombia was given the use of the canal for government ships without paying charges. Citizens, products of the soil and industry, and mails were to be exempt from all duties on the same basis as those of the United States.

This country agreed to pay twenty-five million dollars as indemnity to Colombia. Five million were to be paid within six months after the exchange of ratifications, while the remainder was to be paid in four equal annual installments. The independence of Panama was to be recognized. On June 9, 1914, the Colombian Congress approved the treaty, but the United States Senate refused to ratify it. The matter drifted along unsettled until 1919 when, nearly five years after its presentation by Wilson, the treaty was again brought up.²⁴ The apology was then stricken from the treaty. Finally, in 1921, the United States

23. "Settlement of Differences with Colombia," in Senate Documents, 66 Cong., 1 Sess., Vol. XV., No. 64, pp. 3-7.

24. New York Times, July 30, 1919, p. 3, c. 1.

ratified the treaty.²⁵ Evidence seems to show that big business and idealism met on common grounds. Oil deposits had been discovered in Colombia and as our supplies were being exhausted, it was necessary for Americans to obtain concessions in that country. Yet this action could scarcely be accomplished while the two governments were on unfriendly terms. "Here, in Colombia, was a combination, then, of idealism and the personal antagonism of the foremost two Americans [Roosevelt and Wilson] of their generation."²⁶ The payment of \$25,000,000 fitted in admirably with Wilson's fixed determination to improve our South American relations; while it was in direct opposition to the standards Roosevelt had maintained. Strange as it may seem, Henry Cabot Lodge, who had been an ardent supporter of Roosevelt, engineered the ratification in 1921. In the early part of December, 1922, Colombia received the first

25. Charles Wilson Hackett, "Relations between the United States and Latin America since 1898," in Current History, Vol. XXVI (September, 1927), p. 935.

26. Sears, op. cit., p. 585.

check on the account of \$25,000,000 given by the United States.²⁷ On May 9, 1924, Colombia and Panama renewed their diplomatic relations which had been severed since 1903.²⁸ Thus part of the misunderstandings were obliterated by law. The task yet remained for the spirit to be healed.

27. New York Times, December 7, 1922, p. 8, c.2.

28. Ibid., May 9, 1924, p. 2, c.7.

II.

DIPLOMATIC CONTROVERSIES ARISING FROM
INTERPRETATION OF TREATIES

The diplomatic conflict between Great Britain and the United States regarding the canal rests on the interpretation of the Hay-Pauncefote treaty of 1901. The discussion hinged principally upon Article III, paragraph 1, which is as follows: "The canal shall be free and open to the vessels of commerce and of war of all nations . . . , on terms of entire equality, so that there shall be no discrimination against any such nation, or its citizens or subjects, in respect of the conditions and charges of traffic, or otherwise. Such conditions and charges of traffic shall be just and equitable."¹

In section 5 of the Panama Canal Act of August 24, 1912, the President of the United States was authorized to fix and from time to time change the amount of tolls to be levied upon vessels using the canal. It was further

1. Senate Documents, 63 Cong., 2 Sess., Vol. 27, No. 456, pp. 73-84; Malloy, Treaties, Vol. I, pp. 782-784.

provided that the coastwise trading vessels of the United States should be exempt from payment of tolls.² Great Britain took the stand that this provision violated the Hay-Pauncefote treaty. A fundamental question of dispute was whether the rules adopted by the United States under Article III of this treaty apply to her as well as other nations.

The objectionable features to Great Britain were:

(1) No tolls were to be levied upon the United States coastwise trading vessels; (2) the act appears to give the President power to discriminate in favor of ships belonging to the United States and its citizens; and (3) the vessels of Panama were exempt from paying tolls.³

In exempting the United States coastwise trading vessels, Great Britain claimed that our country was not living up to the terms of Article III, paragraph 1 of the

2. United States Statutes at Large, (Washington, 1913), Vol. XXXVII, pt. 1, p. 562.

3. Ibid., pp. 562-563.

Hay-Pauncefote treaty. William Howard Taft, when signing the Panama Canal Act, contended that since the United States had constructed the canal wholly at her own cost, upon territory that had been ceded to her by the Republic of Panama, she had the power to allow her vessels to use the canal upon such terms as she saw fit. Such a position meant that her vessels could use the canal without paying tolls, or paying lower tolls than those charged other nations, or she could remit to her vessels the amount of the tolls levied. ⁴

An English writer has made a fairly exhaustive study of the Panama Canal conflict. He says that the arguments of the United States were weak because of being based on a false presumption, namely, that the United States is not restricted by the 1901 treaty, and so can dictate the terms upon which the other nations might use the canal. England maintained that the treaty made between the United States and Panama was subject to the restrictions placed upon the former by the Hay-Pauncefote treaty. In addition, Oppenheim very forcefully says, "She [United States] has

4. L. Oppenheim, Panama Canal Conflict (Cambridge, 1913), p. 11.

not granted anything, the free use of the canal by vessels of all nations having been the conditions under which Great Britain consented to the abrogation of the Clayton-Bulwer treaty, and to the stipulation of Article II of the Hay-Pauncefote treaty according to which -- in contradistinction to Article I of the Clayton-Bulwer treaty -- the United States is allowed to have a canal constructed under the auspices." 5

A strong point in the British argument is that concerning the neutralization of the canal. The rules of October 28, 1888, neutralizing the Suez Canal were incorporated in Article III. If the United States was not bound to respect number one of this article, it is evidence that she would not need to respect the remaining. If she did not, the canal could then easily become a theater of war and the purpose of neutralization would be defeated. Apart from the fact that she can make all necessary fortifications for the policing of the canal, the United States had no more rights there during war than her opponent or a

5. *Ibid.*, p. 16.

neutral power. 6

If one studies the whole of both treaties between the United States and Great Britain, it seems clear that the United States was to be included in the term "all nations." If an exception had been thought of, that expression would not have been used. Under the earlier treaty, the two countries were to have equal rights and privileges in regard to canals or railways. Under the later one, the principle of neutralization agreed to in the former was not to be impaired, and the preamble stated that the only purpose of making a new treaty was to allow the government of the United States freedom to build a canal under her own auspices. No change of territorial sovereignty of the territory traversed by the canal was to change the obligations of the parties contracting the treaty. The British further claimed that when tolls were levied, foreign vessels would have to bear a disproportionate share of the cost because the American coasting trade vessels would be exempt.

6. Malloy, Treaties, Vol. II, p. 1356.

As has been stated before, Taft — and he was supported in his view by the majority of the Senate at that time — contended that the United States was entitled to dictate the conditions, since it had procured the right of way. He took the position that the canal was to be operated on a most-favored nation basis. Therefore, the privileges granted one nation observing the neutralizing conditions were to be equal to those granted another nation acting in like manner. It seems that the treaty was held to be an instrument by which the proprietor of the canal states the terms of its use to customers.⁷ It was also considered that, if the neutralization rules did not apply to the United States, surely the other rules in the same group did not.

As an answer to Britain's claim that, if the tolls were levied, other nations would have to pay a disproportionate share because of the American exemption, Taft said that the tolls were fixed on the assumption that the coast-

⁷Richard Olney, "Panama Canal Tolls," in Senate Documents, 63 Cong., 1 Sess., Vol. XX, No. 33, pp. 9-10.

wise traffic paid them.⁸ Thus no country would be affected more than it would be by a subsidy, unless it were Canada, and she could subsidize her trade from Quebec to Vancouver.

Some editors claimed that Canadian and American railroads were the main objectors in this hemisphere to exempting American coastwise trading vessels. They alleged that the Panama Canal competition hurt their business, causing them to reduce their rates greatly. The low freight rate of the canal drew traffic from long distances even as far inland as Kansas City. Of course the railroads would feel the keen competition. Mississippi river traffic passed through the canal. Because of this loss of traffic to the railroads and because the canal has been so successful as far as American trade is concerned, railroads have strenuously objected to a free tolls policy. As an answer to this argument, it can be stated that while it might not be feasible for our government to contribute to building up a merchant marine, it could aid American interests in general by removing these tolls.

8. "Reversing Our Panama Policy," in Literary Digest, Vol. XLVIII (January-June, 1914), pp. 365-366.

Though the majority of leaders seemed to favor the exemption, there were a few, such as Woodrow Wilson, Elihu Root, and Walter Hines Page who opposed the discrimination. When Wilson stepped into the presidency in 1913, a change was noted in our foreign policy. Roosevelt had said, "I took the Canal Zone and let the Congress debate." Taft's policy may be summed up in this statement of his: "While our policy should not be turned a hair's breadth from the straight path of justice, it may well be made to include intervention to secure for our merchants and our capitalists opportunity for profitable investments which shall inure to the benefit of both countries."⁹ From one point of view, it does seem as though our foreign policy has developed, with very little deviation, along the lines laid down by these two presidents.

The English had desired to have the tolls question arbitrated. Taft had been willing, but the Department of State demurred, saying there was no violation of the

9. Shipstead, op. cit., p. 833.

treaty.¹⁰ On March 5, 1914, though the exemption had been approved in the Democratic platform, Wilson disregarded the plank and asked for the repeal of the tolls act. He believed the exemption to be economically unjust. He was scrupulous because he relied on justice between nations, regarding it as essential that confidence be strengthened in the pledged word of the United States. He did not base his charges on alleged violations of the treaty, but urged that this country should be too big to interpret its promises only to suit itself just because it was powerful enough to do so.¹¹

Wilson was upheld in his stand by Page, whom he had sent as ambassador to London. Page's opinion was that a bargain had been made and that we ought to keep it, whether good or bad. Wilson closed his message to Congress with these prophetic words: "I ask this of you in support of the foreign policy of the administration. I shall not know how

10. Edgar E. Robinson and Victor J. West, Foreign Policy of Woodrow Wilson, (New York, 1917), p. 5.

11. Bernard Knollenberg, "Panama Tolls and National Honor" in Independent, Vol. CVII (October 8, 1921), pp. 25-27.

to deal with matters of even greater delicacy and nearer consequence, if you do not grant it to me in ungrudging measure." ¹² The debate in Congress waxed long and violent, but the bill was repealed in April, 1914. ¹³

In 1921, the tolls question was again brought to the front in the Senate. William E. Borah of Idaho introduced a bill, exempting American coastwise vessels. The bill passed that body, October 10, by a vote of 47 to 37. ¹⁴ The administration regretted that the question should have been brought up at the time of the disarmament conference, when the hopes of everyone were for better world understanding and cooperation. One contention was that equality of tolls was something the United States could trade for British assent to things the former wanted in the conference. The Springfield Republican expressed a rather widespread feeling by saying, "Even if the right to pass the Borah bill could not be seriously challenged, it would be

12. Woodrow Wilson, Public Papers, Vol. II, (New York, 1926), p. 93.

13. Knollenberg, op. cit., pp. 25-27.

14. Congressional Record, 67 Cong., 1 Sess., p. 6169.

offensive diplomacy to pass it under existing conditions."¹⁵

In executive circles, there had been precedents for taking either side of the question. However, as shown above, the Wilson administration had early taken a stand against exemption. The Middle West objected to the bill as did also the transcontinental railroads. The latter went so far in 1924 as to make application to the Interstate Commerce Commission that they be allowed to reduce their rates on 43 commodities so they could compete with water transportation through the canal. The object seemed to be to drive water transportation out of business.¹⁶ In spite of the efforts to get it through, the tolls bill did not become a law. In the Sixty-ninth Congress, however, a bill was passed to refund excessive tolls.¹⁷

15. As quoted in the Literary Digest, Vol. LXXI October 22, 1921), pp. 9-10.

16. Congressional Record, 68 Cong., 1 Sess., p. 8351.

17. Statutes at Large, Vol. XLIV, pt.1, p. 1639.

III.

EXTENSION OF THE SOVEREIGNTY OF THE UNITED STATES
OVER THE CANAL ZONE

The United States is vitally concerned in the welfare and progress of Latin American nations. The motives compelling her to seek relations with those countries are, according to one writer, fourfold: (1) National security via the Panama Canal and a ring of fortifications in the Caribbean; (2) surplus manufactures; (3) demand for tropical and sub-tropical fruits; and (4) surplus capital. ¹

Forty per cent of the surplus capital of the United States is in undeveloped Latin America. One-fourth of our trade is with that section. The demand for tropical produce increases daily. Yet the first motive is the one whereby the United States has gradually, and not without being criticized, assumed a protectorate over Panama. Our policy has not been single, yet the highest officials have

1. Carlton Beals, "Latin-American Nations' Failure to Attain Unity" in Current History, Vol. XXVI, (September, 1927), p. 362.

sought to convince that country that it need not fear our aggressiveness or imperialism. The regulation of the canal has given the United States increasing influence in that country.

In 1904, Roosevelt issued a proclamation putting into effect in the Zone the laws the inhabitants of that land were accustomed to, except such parts as were inconsistent with the fundamental principles of our constitution. The Isthmian Canal Commission was appointed by the authority of Congress, and given legislative authority.² Executive orders and commercial laws were put in effect.

On December 3, 1904, Taft negotiated with Panama what has come to be known as the Taft Agreement. As Secretary of War he drafted, after conference with the President of Panama, an executive order which the President of the United States had given him authority to sign and promulgate. It was unilateral in form. The main provisions were:

2. Congressional Record, 67 Cong., 2 Sess., pp. 8659-8661.

1. No goods, wares, or merchandise should be imported into Ancon or Cristobal, except those described in Article XIII of the 1903 treaty; those in transit across the Isthmus for destination outside; or coal and crude mineral oil for fuel purposes to be sold at these two cities.

2. There was to be reciprocity of no import duties, tolls, or charges of any kind on goods passing from the Canal Zone to Panama and vice versa.

3. Stamps of the Republic of Panama surcharged "Canal Zone" were to be used. ³

In 1909 was negotiated a Ship Canal treaty, which was one of the tri-partite agreements. In Article I, the United States agreed to begin making annual payments for the lease on the Canal Zone four years after the date of ratification of the Hay-Bunau-Varilla treaty, instead of nine. This meant that the first payment was due in 1908. Panama relinquished to Colombia the payments of the first ten years. Other articles delimited the cities of Panama

3. Foreign Policy Association Information Service, Vol. III, No. 23, p. 356.

and Colon, provided for arbitration of differences, and fixed reciprocal liberty of commerce and navigation. ⁴

In the 1912 Panama Canal Act, Congress ratified the executive laws and decrees. ⁵ From time to time, according to authority vested in him, the President of the United States made rules regarding health, sanitation, taxation, public roads, police powers, and divorces. ⁶ In 1916 the Governor of the Zone was given added authority to make rules subject to the approval of the President. Undesirable persons falling under the Panamanian exclusion act were not to be allowed to use the Zone as a means for getting into Panama. Violations were to be punished by a fine not exceeding \$500, or imprisonments not over one year, or both. ⁷

4. Malloy, Treaties, Vol. III(Supplement,1913), pp. 239-242.

5. United States Statutes at Large, Vol. XXIII, pt.1, p. 429.

6. Congressional Record, 67 Cong.,2 Sess.,p. 13,182.

7. "Exclusion of Undesirable Aliens from Canal Zone," in Senate Reports, 64 Cong.,1 Sess.,Vol.III, No.564,pp.1-4.

Because of misunderstandings, the State Department asked the President to request Congress to authorize the abrogation of the Taft Agreement. A joint resolution of February 12, 1923, approved the request. According to the resolution the old orders and decrees were to expire May 1, but, by action of the President, the time was extended one month. On May 23, Coolidge terminated the Taft Agreement. A treaty, to be discussed later ⁸ was to replace the old agreement and executive orders. ⁹

During the World War, R. M. Blatchford, commanding general of the United States forces there, issued an order prohibiting intoxicating liquors within the Zone. As soon as peace was declared, his order was ineffective, so it was necessary to pass a law which would take its place. The use of the canal and the Panama Railway should be prohibited for the transportation of intoxicating liquor to and from the cities of Panama and Colon. This provision would

8. See post, p.

9. New York Times, April 25, 1924, p. 7, c.1.

be a big blow to the liquor traffic in those cities.¹⁰
A treaty between Panama and the United States was finally agreed upon in 1924.¹¹ The three-mile limit was agreed on. Panama agreed to raise no objections if the authorities of the United States boarded private vessels under the Panamanian flag, outside the limits of territorial waters, in order to ascertain if there was a violation of rules regarding alcoholic beverages. If there are grounds for suspicion, a search of the ship can be made. If there is reasonable belief that a ship is violating the law, it can be taken into port for adjudication in accordance with the laws. The rights granted shall not be extended from the coast farther than can be traversed in one hour by the vessel under suspicion. There would be no penalty if the liquors were listed as sea stores or cargo destined for a port foreign to the United States, provided such liquors are kept under seal and not to be unloaded in the United

10. "Prohibition in the Canal Zone," in Senate Reports, 65 Cong., 3 Sess., Vol. I, No. 677, p. 1.

11. Congressional Record, 63 Cong., 2 Sess., p. 534.

States or its territory. Provision was made for the settlement of claims, and, if no agreement could be reached, the matter was to be referred to the Hague tribunal. ¹²

Defense of the Canal

In the treaty of 1903, the United States was given the right to erect necessary fortifications for the policing and defense of the canal. ¹³ The canal was built more for national defense than for commercial uses. Yet it called for appropriations so that it would not be a weak spot in the system of national defense. It was necessary for almost every Congress to make new appropriations in order to keep the defenses up to the needs. ¹⁴ There would be additional expense of suspension and resumption of work at a later period if appropriations were not made regularly.

After the developments of armaments during the war, it was necessary to reconsider the problems of defense. The use of the air has complicated the situation. Leading

12. Congressional Record, 63 Cong., 2 Sess., p. 534.

13. Malloy, op. cit., Vol. II, p. 1356.

14. Lindley M. Garrison, "Fortifications of Isthmian Canal," in Senate Documents, 63 Cong., 1 Sess., Vol. XX, No. 33, pp. 1-2.

naval and army officers feel that the day of the dread-naught is waning and that aviation will become increasingly important.¹⁵ Because commercial aviation is one means of promoting national safety, progress, and prosperity, plans were proposed for a commercial air line from New Orleans, the strategic point in the Mississippi valley, to Panama, "which is the most vital strategic point on this (sic) earth."¹⁶ In this way the coastline defense of the United States could be strengthened without arousing the suspicion of other nations. In addition, the air service could reduce the time required to get mails from the United States to the capitals of the Central American republics. Because of the large number of American properties and interests in those countries, and their trade with the United States, their foreign mails are exchanged chiefly with this country. If more rapid communications were established, greater friendliness and better understanding would result.

15. Godfrey L. Cabot, in Congressional Record, 68 Cong., 2 Sess., p. 5515.

16. Ibid.

The Department of Commerce has three times during late years assisted American promoters to organize air mail service among Central American countries. The matter was dropped, however, because of no hope of aid from the governments concerned. There are two possible means of establishing an air mail service. One is by private promoters assisted by the Central American governments. The other is by the United States Post Office Department in cooperation with Central American countries.¹⁷ The Department of State in recent years has favored such a service. Charles Evans Hughes expressed the opinion that a more rapid and frequent mail service to all the Central American countries and to Panama would encourage the extension of American commerce and would be a great convenience to the State Department in communicating with its representatives in those countries. He also stated that it would help to strengthen the friendly relations existing with the governments of the countries which the air service would reach.¹⁸

17. P. W. D. Nagle, in Congressional Record, 68 Cong., 2 Sess., pp. 5514-5515.

18. Congressional Record, 68 Cong., 2 Sess., p. 5514.

Besides the aid to the government, the service would be of commercial benefit. The central Mississippi valley and its interests need this type of service, it is claimed. The reason is the lack of the ability of manufactures in the United States to deliver their goods quickly. A limited-size, registration-package delivery would be very beneficial. The large logging and mining interests of Panama and Mexico desire to be in more ready communication for the delivery of blue prints and specifications, which cannot be sent by wire.¹⁹ Thus it is revealed that commercial enterprises do bring pressure upon the government to take certain steps which will further their interests.

As has been stated before, the United States has the right to police the canal. Better fortifications could result if Panama itself were more secure. Such a project was made possible by a request of that country in 1917. Panama asked for \$10,000,000 for the construction of strategic roads and railways that are necessary for defense in time of war. The sum would be an advance on the \$250,000

19. Peter B. Gibson, in Congressional Record, 68 Cong., 2 Sess., p. 5515.

annual installments the United States agreed to pay for the use of the Zone. The costs of the work were to be shared equally. Construction was to be done with Panama-Canal equipment and by American engineers.²⁰ Panama had long needed an improved system of communication and transportation. The benefits gained by that country would repay it for the money and effort expended. Since the United States has guaranteed the independence of Panama, the suggested defense would greatly aid her in maintaining the integrity of that country as well as defending the canal. Increased understanding between the two countries would result because they would be brought into closer connection commercially.

Commercial Enterprises and Sanitary
Regulations in the Canal

It was realized from the time of the inception of plans for a canal that vast sums of money would be expended. The great army of workers, from the skilled engineer to the lowliest ditch digger, must be adequately housed and cared

20. New York Times, May 29, 1917, p. 11, c.2.

for. The building of the canal was a governmental undertaking, so the government, with all its resources, made the necessary arrangements.

In previous attempts at bringing the two oceans together, much money had been wasted and many lives lost because of climatic conditions. Malaria and yellow fever were the dread diseases that took their toll of hundreds of workers. Finally, under the direction of Colonel W. C. Gorgas, the fatal mosquito was banned. According to the treaty of 1903, Panama had agreed to give the United States complete control of sanitary regulations, even in the cities of Panama and Colon. The water system there was to be operated for 50 years at the expense of this country, and was then to revert to the cities.²¹ The stipulation was made, however, that those two cities should always comply with the sanitary ordinances of the United States.²² It is impossible to estimate the benefits sanitation and

21. Malloy, op. cit., Vol. II, p. 1351.

22. Ibid., p. 1352.

regulation of living quarters brought. It is generally recognized that without the aid of medical science the canal would have been an impossibility.

Not only were sanitary measures enacted, but provisions were made for stores or commissaries, which sold supplies to the workers. By the treaty, equipment for the canal was allowed to be imported free of charge.²³ Under this provision, the commissaries could afford to sell at cheaper prices than the stores of Panama and Colon. There does not seem to have been much discussion regarding the matter during the period of canal construction. In recent years, however, abuse of this privilege on the part of American dealers in the Zone, has caused bitter and hard feelings among the Panamanians.

In the third Pan-American financial conference, the Panama delegation presented a memorandum concerning what they regarded as "underhanded selling" of the United States commissaries in the Canal Zone.²⁴

23. Ibid., p. 1353.

24. "A Pan-American Conference," in Nation, Vol. CXVII (May, 1927), pp. 582-583.

A meeting held between the authors of the memorandum and the United States delegation kept it from going to open discussion. A letter, however, was sent to Coolidge asking for investigation. Panama declared that the United States was given the use of the Zone for specific purposes, and that any commercial enterprises engaged in by the United States or its subsidiaries are illegal if not pursuant to those purposes. The Zone authorities have acted as though the United States were sovereign, whereas Panama claims she is sovereign, but has delegated to the United States certain sovereign rights. She protests most strongly against the sale of luxuries, claiming they are not needed for the operation or maintenance of the canal. 25

The main question is whether the Zone is a "cession" or a permanent "lease" and whether the rights granted in Article III of the treaty of 1903 are without limitation as to purpose. In interpretation, the fundamental purpose of the entire treaty should be considered. The convention

25. Foreign Policy Association Information Service, Vol. III, No. 23, pp. 352-358.

was made primarily for an interoceanic canal rather than commercial concessions although these entered in. "To interpret Article III as granting the United States rights and powers in the Canal Zone other than those relating to this main object (construction, maintenance, and operation of a canal) would give Article III a purpose quite different from the purpose of all the other articles of the treaty."²⁶

Taft had declared in 1904 that the rights granted were given us solely for the purpose of constructing, maintaining, and operating the canal. Yet there were violations of the treaty. It was the desire of both Panama and the United States that the points of dispute be cleared up. These may be summed up as follows: (1) Introduction of articles of luxury; (2) smuggling; (3) sales to ships crossing the canal; (4) questions of the legal status of the Panama Railroad.

For a long time the Panama Railroad was the only means of transportation across the Isthmus. It is probably

26. Ibid., p. 353.

here where first American capital was expended in Panama. This railroad was connected with the Pacific Mail Steamship Company. When the contract expired in 1894, the railroad organized its own steamship line. The stock control passed to the United States in 1904 when the government bought the assets of the French company. Lands owned by the concern outside the Zone reverted to Panama, except in the terminal cities.²⁷ The railroad was of vast importance during the time of canal construction. In the treaty with Panama, 1903, the provision was made that Panamanian government employees and their baggage were to be transferred over the railroad under the same terms as through the canal.²⁸

The steamship line maintained in connection with the railroad is operated partly as a "feeder" to the railroads and the canal. When first brought under the control of the United States, shippers of this country were being charged higher rates than those of Europe.²⁹ In fact the rates from New York to Colon were nearly as high as from Liver-

27. Malloy, op. cit., Vol. II, p. 1352.

28. Ibid., p. 1355

29. Congressional Record, 67 Cong., 1 Sess., p. 3327.

pool to Colon, though the latter distance was greater. 30
When the line came into the ownership of the United States,
the policy was changed. Taft, then Secretary of War,
allowed no increase nor decrease of rates, unless justified
by expenses. This system held true even during the World
War.

The line has acted just as a private company with no
governmental interference, competing with other lines hav-
ing the same kind of tonnage and facilities to offer
shippers. The directors and officers can exercise their
own judgment regarding salaries to be paid, settlement of
claims, and such matters. It is not operated as a branch
of the government. The reports of the governor of the
canal point to the wisdom and effectiveness of government
operation. Practically every year there have been profits
resulting from the company's activities. In 1920 there was
a deficit, but it would have been reversed if tariff rates
had been charged for services rendered the government.

30. Congressional Record, 69 Cong., 2 Sess., p. 4220.

A few statistics will show the profits. In 1924, the tenth year after the opening, the total net revenue of the canal was \$17,209,572. The profits of the railroad were \$1,044,887. The tolls of the 5,230 ships in transit through the canal during this period aggregated \$24,290,963, exceeding those of 1923 by 38.7 per cent. These high figures, according to Governor Jay J. Morrow, were due to heavy oil shipments from California. However, excluding oil, the cargo in 1924 was 16.4 per cent greater than in 1923.³¹ In lines of work, there was a decrease in the net revenue from railroad property, telephone, and real estate operations, the hotel, and the dairy farms. The increase was in the harbor terminal operations, the cattle industry, the commissaries, and the coal plants.³²

Morrow expressed his satisfaction with the state of affairs by saying that the receipts from the canal tolls paid all the expenses of operation, upkeep, depreciation,

31. New York Times, November 19, 1924, p. 4, c. 2.

32. Ibid., December 2, 1924, p. 39, c. 3.

and interest. In 1923, one hundred million of the bond issue of three hundred seventy-five million dollars had been paid. ³³ On the other hand, critics might point to the deficit of 1927. But the policy of the railroad company is to operate its steamship line as an adjunct of the canal, and, therefore, freight for the government is carried at a reduction of 25 per cent. Government freight represented a reduction of \$84,724.03 or 36 per cent. from tariff rates. A similar situation exists in regard to carrying passengers. Had regular rates been paid, the profit would have been \$219,612.82. The total operations of the railroad company resulted in sufficient profit to overcome the steamship deficit. ³⁴

The operation of the canal is not a question of profit to the government, it is one involving controversies with the government of Panama, and of strife among the inhabitants of that republic. They do not object even to

33. Jay J. Morrow, "Increasing Profits Made by the Panama Canal," in Current Opinion, Vol. LXXV (October, 1923), pp. 493-494.

34. T.H. Rossbottom, in Congressional Record, 69 Cong., 2 Sess., p. 4220.

increased control and regulation of the United States so long as such actions are for the maintenance of the canal. They do object to American merchants using the protection of the government and the terms of the Hay-Bunau-Varilla treaty to aid them in taking business from Panamanian merchants. The Canal Zone merchants, because of lessened duties, undersold the Panamanians. The 1926 treaty was negotiated in order to quiet and dispel the misunderstandings that had arisen.

Racial Discrimination

Another basis for grievance is racial discrimination. according to one investigator, this exists in the commissaries, schools, living quarters, and such.³⁵ Employees and commissaries are divided into two classes, gold and silver. The silver men receiving wages in silver are the natives. Articles in the silver commissaries are the same price, but of inferior quality. Silver men may not buy

35. Matthew Anderson, Congressional Record, 67 Cong., 2 Sess., pp. 63-69.

articles in gold commissaries unless the purchase is for their masters. Towns and living quarters are classified. Gold employees pay no rent while the silver pay \$5 a month for a place to stay, where there are sometimes as many as 12 families in one house. Wage discrimination gives the gold employee from 90 cents to a \$1.50 an hour for labor, while the silver receives but 25 to 30 cents for the same length of time. Y. M. C. A. secretaries are paid in the same way. Even though the silver employee does not work so fast as the gold, the discrimination seems unfair. What is perhaps the bitterest form is that of requiring the Panamanians to buy postage stamps at separate windows.³⁶

Thus it is seen that too frequently the policy of the United States has aroused strong opposition in a proud and sensitive people. There is dire need that her leaders of the North who so caustically denounce southern injustice toward the negro consider the situation in American dependencies. There is need that this country strive to

36. Ibid.

ameliorate these conditions so that confidence may de-
throned suspicion, and, that as a part of the expression of
true Pan-Americanism, mutual service may result between
Panama and its large sister republic.

IV.

EXTENSION OF THE AMERICAN PROTECTORATE
OVER THE REPUBLIC OF PANAMA

Investments in Panama

There have been but comparatively few diplomatic questions of great importance between the United States and the countries lying to the south. Our relations with Latin America have been largely commercial and utilitarian. These statements are less true for the Caribbean region than others. The Panama Canal, in particular, has given rise to numerous diplomatic questions. Political intervention did not follow commercial enterprises. The situation for the most part was one of business following politics.

Frequently investments in Central America have led to friction with local officials and a consequent dislike toward the United States and a loss of national self-respect. Interests obtaining inequitable concessions by dishonest methods have too often sought to secure

influence with the native governments by assisting revolutions against a president from whom they could not get what they desired. The capital invested in Panama has been principally by loans made to the government. Money has been needed for reorganizing the country's finances and the development of natural resources.

Financial relations between the United States and Panama began in 1904 with the payment of \$10,000,000 for the canal lease. Six million of this was invested, by William Nelson Cromwell, Panama's fiscal agent, in first-class New York real estate, with mortgages averaging 5 per cent. The investment was made as provision against the instability of the currency.¹ In 1920, at the request of the Panama authorities, an economic mission headed by Clarence J. Owen, investigated conditions in Panama. Two proposed laws were submitted in the commission's report: One, providing for a farm-loan bank and, the other, for an agricultural extension service. President Porras, as former minister from his country to the United States, had

1. New York Times, April 15, 1923, Sec. II, p. 15, c. 1.

observed the operation of the United States farm-loan act, and was determined to secure corresponding legislation in his own country. As president, he urged the opening of roads and a greater use of the canal, along with a closer plan of cooperation in regard to the use of the railroad. He said, "If the Panama Canal is of genuine commercial advantage to the other countries of the world on the very basis of transportation, the economic advantage of being nearer a given point should bring to Panama an advantage of greater value than to any other country." 2

In 1914 the National City Bank of New York purchased \$2,250,000 of 5 per cent, three-year Panamanian government bonds which were secured by a portion of the \$250,000 annuity. No public offering of this issue was made. By April 1, 1923, there had been retired \$602,000, leaving an outstanding amount of \$1,648,000. In 1915 a million dollar loan had been negotiated with Crowell and the Metropolitan Trust Company. By 1921, only \$420,000 were

2. Ibid., March 7, 1920, Sec. II, p. 13, c.1.

unpaid. ³

Owen said, at the close of the investigations, "The one great need is for the spirit of cooperation to be fostered between Panama and the United States, and that we should adopt as a policy plan to assist Panama in the solution of problems along all lines of common interest to the two countries." ⁴

In 1921, Dr. Eusebio A. Morales, Minister of finances of Panama, said his country was on a sound financial condition and that the low tax rate of \$6.40 on a thousand should be an inducement to American immigration. In the two years previous, a surplus of \$4,000,000 was collected and used for road construction. ⁵

In 1923, a new loan of \$4,500,000 was launched to complete highway construction. A comprehensive system of roads is planned to open up the interior of the country and thus

3. Ibid., April 15, 1923, Sec. II, p. 15, c.1.

4. Ibid., July 7, 1919, p. 21, c.2.

5. Ibid., November 7, 1921, p. 25, cs.4-5.

permit easy access to the agricultural products. The bonds are thirty-year, 5½ per cent, sinking-fund gold bonds. Morales stated that the bonds were a direct obligation of Panama, secured by the net income of the \$6,000,000 invested in New York City first mortgages, and by the unassigned portion of treaty payments due Panama from the United States. The bonds were not redeemable for 10 years, except for the sinking fund. This last issue made Panama's debt \$7,000,000 of which \$6,148,000 was external. ⁶

Financial conditions are more stable in Panama than in many Latin-American republics, because the government is guaranteed practically revolution-proof by the United States. Our national leaders have approved the policy of helping governments, especially those near the Canal Zone, reorganize their fiscal systems. The United States has at times, with the consent of the countries concerned, agreed to a measure of supervision in the maintenance of security for loans which otherwise would have been made only at

6. Ibid., May 25, 1923, p. 23, c.3.

oppressive rates.⁷ This supervision has often been exercised by Americans nominated or appointed by the government, who act as collectors of customs or as financial advisors. In some cases appointment of such administrators has been within the terms of the banking corporation. There have frequently been such officers in Panama.⁸

Strictly commercial enterprises have not been so numerous in Panama as in some of its neighbors. The country is small, and agricultural products constitute its chief assets. In 1923, there were \$8,253,226 invested.⁹ Oil concessions have been few. One of the largest was obtained by the Sinclair Gulf Corporation in 1917, when it secured the right to explore 10,000,000 acres from which to select 2,000 square miles for petroleum development.¹⁰ In 1919, a

7. George H. Blakeslee, Recent Foreign Policy of the United States, (New York, 1925), p. 106.

8. Robinson and West, Foreign Policy of Woodrow Wilson, p. 106.

9. Harry T. Collings, "Billions of Our Capital Invested in Latin America," in Current History, Vol. XXVI (September, 1927), pp. 848-849.

10. New York Times, May 2, 1917, p. 15, c.2.

large oil holding was leased in the province of Chiriqui.¹¹ An international corporation, in which British, French, and American interests are associated, was formed in 1926, with a capital of 2,000,000 pounds, to exploit the gold field recently discovered in Panama.¹²

Panama's foreign trade in 1925 amounted to \$17,388,053, which was an increase of 3.63 per cent over that of 1924. The value of imports was \$14,592,053, an increase of 5.97 per cent. The exports have been estimated at \$2,796,000 showing a decline of 7.04 per cent.¹³ The bulk, of 93 per cent, of this export trade is with the United States.¹⁴ By geographical location, industry, development, and kind of food consumed, the United States is admirably fitted to do business with this country.

Difficulties arose when the United States contemplated subleasing the wholesale activities of the Panama Railroad

11. Ibid., November 23, 1929, Sec. II, p.6, c.2.

12. Ibid., April 7, 1926, p. 2, c. 2.

13. Matilda Phillips, "Latin-American Foreign Trade in 1925," in Pan-American Union Bulletin, No.19(Washington, 1927), pp. 1-3, 6-7.

14. Stuart, Latin America, p. 234.

Company to private investors. The proposal, which was before the War Department for over a year, included the leasing of commissaries, a farm, pasturages, 40,000 head of cattle, warehouses, and machine shops. The proposal is said to have been made by Charles R. Strotz, representing New York financial interests.¹⁵ Dr. Ricardo J. Alfaro, then Minister from Panama, protested against the sublease of railroad property held by the United States under lease from Panama. President Calvin Coolidge made it plain that this country enjoys the powers of a sovereign in the Canal Zone and would assert those powers if called upon. He stated further, however, that there was no desire to exert them merely for the sake of more revenue for the treasury. His belief was that the government should be separated from such activities.¹⁶

A somewhat analogous situation occurred in regard to a light and power company in Panama City. The Panama Light

15. New York Times, October 13, 1923, p. 14, c.7.

16. Charles W. Hackett, "Mexico and Central America," in Current History, Vol. XIX (December, 1923), p. 521.

and Power Company, with a capitalization of \$4,000,000, financed wholly in the United States, erected plants in 1915, in agreement with the Panama government. When a bill passed the National Assembly, chartering a company to be operated by the City of Panama, American investors protested. W. W. Nichols, President of the American Manufacturers' Export Association, uttered this declaration of dissent, "At a time when American business is preparing to extend its cooperation to develop the industries of Central America, this legislation would prohibit further American investment and prove an absolute check to Panama's prosperity."¹⁷

Some Panamanians resent this financial domination, though it occurs there to a lesser degree than in some Central American countries. Others feel that their country is decidedly benefited by the United States. Dr. Morales, finance minister of the Republic of Panama, stated a sane view, when in the United States in 1925, aiding in the negotiation of a new treaty. He said there was a growing conviction in the southern countries that the United States

17. New York Times, December 14, 1924, p. 7, c. 3.

had a profound sense of justice toward its southern neighbors. However, he alluded lightly to certain defects, which, he said, were due to the tremendous and rapid growth of our nation. He also stated that the southern republics admired the United States because of its growth and financial power.¹⁸

United States Intervention

The extension of control of the United States over Panama has not been primarily financial, but political. Although much of her progress is due to the aid of the United States, undoubtedly an undue proportion has been assigned to the effect which her supposed constant tutelage has had on Panamanian national life.¹⁹ Certainly the country has enjoyed, since 1903, an unusual degree of prosperity and stability such as she had never before experienced. From 1850 to 1900, there were 50 revolutions on the Isthmus.²⁰ The establishment of comparative political stability is due to the clause in the 1903 treaty, guaranteeing Panamanian

18. Ibid., May 21, 1925, p. 36, c. 3.

19. Angel D. Rodriguez, "American Powers in Panama," in Current History, Vol. XIV (May, 1921), p. 300.

20. William Jennings Price, "Influence of the United States on Central American Progress," in Current History, Vol. XXVI (September, 1927), pp. 871-874.

independence, ²¹ and the one in the Panama constitution giving the United States the right to intervene anywhere in the republic to re-establish constitutional peace and order if they are disturbed. ²²

In the latter part of 1925, the United States intervened at the request of Panama. Workers in the City of Panama had demanded lower rents. These demands ended in serious and bloody riots and disorders on October 10 and 11. President Rodolfo Chiara requested a conference with the United States Charge d' Affaires Lunro, the acting governor of the Canal Zone, and the Commanding General of the United States forces. Assistance was granted, and, at 2 p.m. American troops entered the city with orders to disperse all gatherings of more than five, prevent fires, and maintain order. United States machine guns were set up in Panama to protect government buildings. The disturbance was easily quelled and, by October 15, most of the United States

21. Malloy, Treaties, Vol. II, p. 1349.

22. Carl Russel Fish, American Diplomacy (New York, 1915), p. 443.

troops had been withdrawn. By October 23, all had left. ²³

Seizure of Port Cities and Taboga Island

The 1903 treaty gave the United States the authority to acquire, by purchase or eminent domain, the rights necessary in the cities of Panama and Colon and the adjacent harbors, Ancon and Cristobal, but excluded these from the United States jurisdiction. ²⁴ No matter what rights were given for the construction of the canal, the Panamanians had never understood that their country was to lose those ports. They were consequently alarmed when the United States took over the operation of the ports. This action made the two cities without ports, and dependent upon the terminal ports of the canal for foreign commerce. ²⁵

Additional cause for grievance occurred when the United States, desiring to place fortifications on the Island of Taboga, in order to guard the canal, notified Panama to

23. Charles W. Hackett, "Mexico and Central America," in Current History, Vol. XXIII (December, 1925), p. 412.

24. Malloy, op. cit., p. 1351.

25. Foreign Policy Association Information Service, Vol. III, pp. 355-356.

release this possession. The Panamanians staged a demonstration against General John J. Pershing when he was visiting the country. In England, Major C. Lowther, in the House of Commons, questioned the step of the United States, considering that Panama was a member of the League of Nations. Negotiations were begun for acquiring the island. The demands of the Panama government were: (1) That the amount of land taken for fortifications be reduced to a minimum; (2) that there be no immediate expropriation of private property beyond what was absolutely necessary; and (3) that the United States leave to the inhabitants their water supply and graveyards. ²⁶

The greater part of the island was reserved to Panama. The republic held the position that the canal should be declared a completed project, and that the authority for taking over more lands should be terminated. ²⁷

26. Inman, Pan-Americanism, p. 372.

27. "Panama," in Current History, Vol. XVII (March, 1923), pp. 1066-1067.

Costa Rica-Panama Boundary Dispute

For a number of years there had been a boundary dispute between Panama and Costa Rica. Most of the disputed area lay on the Pacific side of the Isthmus, though some lay on the Atlantic. On September 11, 1900, President Loubet of France had rendered a decision but it had not been adhered to because Panama said it was not clear. A treaty between the disputing countries was made March 7, 1910, in which they agreed in advance to accept the award to be given by Chief Justice Edward D. White of the United States Supreme Court. 28

Without warning, on February 21, 1921, Col. Mora of the Costa Rican army, arriving at Coto, Panama, commanded Manuel Pinzon, the Panamanian Police Inspector, to surrender the town to him. The latter had no forces with which to resist so he telegraphed the news of the invasion to the provincial capital, David. 29

28. "Panama Rejects the White Award," in Current History, Vol. XIV (May, 1921), pp. 334-336.

29. "Costa Rica Invades Panama," in Current History, Vol. XIV (April, 1921), pp. 148-150.

Panama has no army, only a police system organized on military lines. An appeal was made to the United States for arms since the country had been disarmed by General Clarence Edwards of the United States army in 1915, when disorders were threatened. So, in accordance with treaty provision, she looked to this country for arms and munitions to carry on the defense of her invaded territory.³⁰ Munitions were not sent, though American troops arrived on the scene February 28 to keep order.

Preparations were made for war, even to the floating of a new bond issue. At this time, the Department of State sent notes to Panama and Costa Rica, urging acceptance of the White award and cessation of hostilities. The former answered on March 5, that it was willing to accept the good offices of the United States, but the Costa Rican note was unsatisfactory. The United States warships were ordered by the Navy Department to both sides of the Isthmus.³¹

30. Malloy, op cit., p. 1349; Rodriguez, loc. cit., pp. 300-301.

31. Foreign Policy Association Information Service, Vol. I, No. 3 (April 13, 1927), p. 39.

The cruiser Sacramento was sent to Almirante to protect American property, and instructions were given to Rear Admiral Bryan, commanding a special Central American squadron, that, if local authorities could not protect American property and lives, he was to use his discretion in disposing of vessels and armed forces. ³²

Meanwhile Panama continued holding out. Munitions from abroad arrived. President Porras was authorized to use \$50,000 to retain the services of three Panamanian and three foreign experts to support the government. He, however, urged acceptance of the White award. ³³ The Star Herald, the leading newspaper of the republic, from the first counseled moderation, and urged its country not to consider the United States as an enemy. Rather she should be considered as a loyal friend because her diplomats had tried to obtain a just solution of the affair. ³⁴

32. "Costa Rica Invades Panama," loc. cit., pp.148-150.

33. "Panama Rejects the White Award," loc. cit., pp. 334-335.

34. "Our Interference in Panama," in Literary Digest, Vol. LXX (September 3, 1921), p. 3

Secretary Charles Evans Hughes was very firm in dealing with Panama. William Jennings Price, United States Minister to Panama at that time, suggested to Narciso Garay, Secretary of Foreign Relations of the Republic, that Panama should withdraw her troops from the invaded territory, and that the United States would see that Costa Rica did the same.³⁵ On April 18, the Washington government asserted that war would not be tolerated, and that the United States would take the necessary steps to settle the dispute if Panama did not. The United States could not permit that country to stir up trouble by arbitrarily extending its sovereignty over territory in the possession of which the United States would not be bound to protect her, but the country was given a reasonable time to decide.³⁶

In the meantime she asked Argentina for assistance in resisting the White award. Then the United States Department of State reviewed the situation, saying our government was responsible by treaty for Panama's fulfillment of her

35. Rodriguez, op. cit., p. 301.

36. "Panama Still Hostile to Costa Rica," in Current History, Vol. XIV (June, 1921), pp. 534-535.

international obligations and could not permit interference by outsiders. Argentina informed Panama that she was "not able to lend the good offices requested."³⁷ Garay wrote a tart note to Hughes saying the action of the United States in dispatching marines showed that force still ruled the relations between nations, and that, though his country was bowing then, it might not always.³⁸ Hughes disposed of the matter by saying that both Panama and Costa Rica had bound themselves in advance to abide by the White award.

At the beginning of the dispute, the League sent dispatches to each country, reminding them of their obligations as League members. Hughes called attention to the treaty of 1915, by which the United States was to act as arbitrator in Panamanian disputes. Argument was avoided by the League, saying it was glad the good offices of the United States had been accepted.³⁹

37. New York Times, July 25, 1921, p. 12, c.3.

38. Ibid., August 27, 1921, p. 3, c.7.

39. "Costa Rica Invades Panama," loc. cit., pp.150-152.

Critics of the United States will seize upon the State Department's intervention as an instance of our imperialistic bent. The Harding administration, in the notes written, and in sending marines, indicated that force would be used if necessary. For the security of the Canal Zone, war could not be permitted. Whatever force or coercion was used was against one Latin-American republic for another. The action set many Latin-American minds at rest, as it proved the disinterestedness of the United States in taking action against her favored child.

Treaty of 1926

The Hay - Bunau-Varilla treaty, though negotiated as a temporary arrangement and hurriedly signed, had been permanent. Several questions of difference had arisen, especially when, by an executive order, the Dingley tariff had been placed in operation and customs houses and United States post offices established. Panama protested that the Zone was merely a lease and that the United States government functions should be limited to carrying out the

main purpose of the 1903 treaty.⁴⁰ After the completion of the canal, some of the treaty terms became obsolete. There was misunderstanding of the purpose of the treaty. There was misinterpretation by Zone authorities.⁴¹ Panama claimed our government was expanding commercially: by expropriating more territory for private enterprises not connected with the canal; by abusing the right to import goods free of duty; and by opening hotels in the Zone to the public.⁴² She wanted the rights of the United States to be clarified.

President Harding obtained permission from Congress to abrogate former acts, so a new treaty might be negotiated. On May 23, 1924, President Coolidge, in accordance with a Joint Resolution, approved by Congress in February, 1923, issued a proclamation abrogating the Taft

40. Grand C. Pierre, "Panama's Demand for Independence" in Current History, Vol. XIX (October, 1923), p. 128.

41. New York Times, July 28, 1926, p. 24, cs. 4-5.

42. Pierre, loc. cit., p. 128

Agreement. ⁴³ It was now possible to negotiate a new agreement.

By July 23, 1926, a new general treaty was ready. Dr. Ricardo Cortez and Dr. Eusebio Morales were the Panamanian Commissioners to sign the treaty. It is considered by some to be mutually advantageous. ⁴⁴ Articles IV and XI are outstanding. The former attempts to clear up points regarding Zone jurisdiction. The sale of goods except to ships shall be limited to workers and employees and their families. There is to be cooperation to prevent smuggling. The United States will not permit the establishment of private business enterprises other than those existing at the time of the signing of the treaty. A reciprocal free importation of goods between the Canal Zone and the Republic of Panama is provided. ⁴⁵

Article XI has been called the heart of the treaty. Adverse critics base their criticism upon it. The main

43. New York Times, May 29, 1924, p. 31, c.4.

44. "Panama to Aid Us in War," in Literary Digest, Vol. XCII (January 1, 1927), No.1, p. 10.

45. Price, loc. cit., pp. 872-875.

provision is that there will be cooperation between the two countries in time of war. ⁴⁶ The United States would have charge of operations. This article represents a big advance over Panama's previous attitude, which was agreement to give the greatest access possible to the United States for moving troops, and to place no hindrance in the way of American defense of the canal.

Other provisions of the treaty are that armed forces of the United States may enter Panama territory in peace time for maneuvers, after due notice has been given. The United States agrees to connect Panama City and Colon with a road costing up to \$1,250,000. She is to control the northern water front of Colon, including certain canal buildings formerly excluded from the Zone jurisdiction. Radio stations may be erected in any part of the republic.

Opposition to the treaty was strenuous. On January 14, 1927, Senor Harmodio Arias, member of the Panama National Assembly, charged that the treaty placed serious burdens upon the small country without benefiting the United States.

46. Ibid.

Hostile groups declared January 21 and 22 as anti-treaty tag days. The tags read, "The nation will force rejection of the treaty for a free Panama." ⁴⁷

On January 26, the Assembly passed a resolution suspending further consideration of the treaty and requesting President Chiari to reopen negotiations. Some people in the United States oppose the treaty, saying, as does the Nation, "In our judgment this treaty is another step in our most unhappy and imperialistic policy, which must inevitably cost the United States dear." ⁴⁸ Others say that the status of Panama has not been changed. Morales said before the League that Article XI was proposed by Panama and that at no time was there a tendency to humiliate Panama. He reiterated that his country is sovereign over the Canal Zone. ⁴⁹ Bunau-Varilla said of the treaty, "It simply repeats in somewhat more detail what was already said and

47. Charles W. Hackett, "Mexico and Central America," in Current History, Vol. XXV (March, 1927), pp. 919-920.

48. Nation, Vol. EXXIV (January 5, 1927), p. 6.

49. Foreign Policy Association Information Service, Vol. III, No. 23, p. 359.

written 23 years ago." 50

The United States had first as its object in dealing Panama the construction of a canal. Now that the canal is completed, the object is primarily to maintain, operate, and protect it. There are not evidences of government following business as in some countries. Business enterprises for the most part have followed governmental intervention. So on this point the United States can not be accused of imperialism. And it must be conceded that Panama has been greatly benefited, in that revolutions and international wars have been checked. But on the other hand, Panamanian interests have been considered only secondarily. Too frequently the State Department has had but its own end in view and has not fully considered the interests of the minor country. There is need for more careful study of motives and purposes so that better understanding and co-operation may result.

50. Philip Bunau-Varilla, "Washington and Panama," in Living Age, Vol. CCCXXXII (March 15, 1927), p.487.

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