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DEPARTMENT OF STATE
ASSISTANT SECRETARY

~~OAR - Mr. Stewart~~
OAP/P
CAH

TO: The Secretary

MAR 18 1960

THROUGH: M - Mr. Merchant
S/S *[Signature]*

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FROM: ARA - Mr. Rubottom *RRB*

SUBJECT: White House Meeting on March 21 to Discuss Panama Policy

On February 16 the President addressed a memorandum to you with an attachment containing a summation of complaints by Panama, together with some suggestions as to ways to ameliorate the situation. The President stated that he was sending the same document to the Secretary of the Army and that following his return from South America he hoped to have a conference with a view to finding better solutions to outstanding problems than those thus far developed (White House Memorandum, February 16, with its attachment is at Tab A).

Secretary of the Army Brucker and Assistant Secretary of the Army (FM) Roderick are scheduled to be present for the meeting with the President on March 21. You will be accompanied by Mr. Merchant, and me if you so desire.

Discussion:

We understand that Secretary Brucker will present to the President a ten point program, largely based on the February 16 memorandum. We have been unable, however, to find out precisely what this program calls for and therefore list below the points of the February 16 memorandum and our comments thereon.

my 1. Discrimination in Wages Paid Panamanians

Since signing of the 1955 Treaty the Panamanian Government has complained that the United States has violated "in spirit" the "equal pay for equal work" commitment. Government officials refer to the fact that the United States pays workers at United States and local rates, with most of the Panamanians receiving the lower local scale of wages. This is not a violation of the Treaty but the practice lends itself to unjustified charges.

To narrow the gap between the two rates, the Department has suggested to the Department of Defense that an increase of around 10 cents in hourly pay to local rate employees might be beneficial at this time. The Panama Canal Company directors have authorized an increase of five cents an hour but no action can be taken until the three armed services and the Canal Zone Government authorize a corresponding increase, which must come from appropriated funds, for their workers.

In the discussion before the President it is recommended that you suggest or support an immediate wage increase for local rate employees.

my 2. Job Reclassification

The memorandum suggests that an immediate study be made to see how the pay rates of more Panamanians can be hitched to the United States wage scale.

Mr. Brucker

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Mr. Brucker and Mr. Roderick will discuss ways and means of doing this and it is recommended that the Department favor any moves that would tend to assuage Panamanian aspirations.

Army 3. Security Positions

The memorandum suggests that an immediate study be made to ascertain which of the more than 2,000 security jobs may safely be opened to qualified Panamanians.

A move by the Canal Zone agencies to reduce the number of security positions open only to United States citizens would be beneficial to relations with Panama and it is recommended you support any plan submitted by Mr. Brucker or Mr. Roderick to achieve the reduction.

Army 4. Apprenticeship Program

The memorandum suggests a sizeable increase in the apprentice program and the reservation exclusively to Panamanians of a portion of the positions in the skilled trades in order that they may compete for those jobs among themselves.

The President mentioned improvement of the apprentice program in his discussion of the Panamanian problem with Ambassador Arias on October 12. The Department has expressed itself in favor of opening more United States-rate jobs to Panamanians on numerous occasions in discussions with Defense officials and it is recommended that this viewpoint again be mentioned.

If the Defense representatives present a good plan it is recommended that you support it.

5. Discrimination in Promotion Opportunities

The memorandum suggests that a training program should be undertaken for qualified Panamanians leading to appointments to at least minor supervisory positions.

Recalling that United States industry follows the policy of replacing its American personnel with nationals as soon as the latter are sufficiently well-trained, it is recommended that you support any move which will reverse the present practice of freezing Americans in choice jobs. Many of these jobs are passed from father to son, thus perpetuating a practice that was abandoned years ago by United States private industry in Latin America.

6. Widespread Poverty and Unemployment Among Panamanians

The memorandum asserts that this is partially due to the fact that the Company and the Armed Services have discharged about 10,000 employees during the last ten to twelve years. It suggests that a study be made to work out the basis for treaty provisions which might bring about an approximation of the tariff advantages which have enabled Puerto Rico to establish so many small industries exporting to the United States and therefore increase employment.

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This so-called Panamanian "Operation Bootstrap" would require consent of various other countries if tariff advantages were granted Panama. However, the plan merits study because if the United States abandons the present Canal and leaves the Zone after constructing a sea level waterway, it is conceivable that we will be required to finance small industry projects in the Zone to provide jobs for the 12,000 Panamanians who would be dismissed. An early start on an "Operation Bootstrap" might make negotiation of a new treaty with Panama much easier. As you are aware, the United States will require the consent of Panama to abandon its present Canal operation. A study of feasibility of making tariff concessions to Panama is at Tab B.

7. Increased USIS Propaganda Activities

The Department has instructed the Embassy to take steps leading to establishment of a daily radio commentary program to present the United States viewpoint in Panama. USIA is favorably disposed and is awaiting a recommendation from its Public Affairs Officer. The Panama Canal Company directors discussed this matter at their last board meeting and decided there was a need for some medium to get the United States point of view to the Panamanians. While Mr. Roderick is aware of the Department of State's efforts, you may wish to mention the above details at the meeting if the subject arises.

Army 8. Better Rates for Water Charges to Panama

This is a technical problem which the Defense representatives may discuss. It is recommended that State defer to their judgment.

Army 9. United States Loans for a Reasonable Housing Program in Panama

The Panama Canal Company has drafted a bill which will provide congressional authority to proceed with a housing program. It is believed the proposed bill will be discussed by Defense representatives at the meeting and the President's approval sought to introduce the bill.

Senator Murray (D-Mont) has introduced a bill calling upon the Development Loan Fund to guarantee loans for housing in Panama. The Department has drafted a letter to the Senate Foreign Relations Committee indicating that the housing plan under the direction of the Panama Canal Company is preferable to the Murray proposal (Tab C).

Army 10. The Panama Canal Company Program to Build More Houses for Panamanian Employees in the Zone

The memorandum states the belief that a program of this nature fosters loyalty to the United States by such inhabitants. This is undoubtedly true but the Defense representatives will be in a better position than the Department to judge the feasibility of this project.

Army 11. Modest Pension Increase and Provision of Medical Aid for Elderly Retired Former Employees

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These are laudable suggestions but again the Defense representatives must provide the answer. It is understood that some pensions are in the neighborhood of \$40 a month.

12. Next Appointment to the Board of Directors of the Panama Canal Company Should Be a State Department Representative

from The White House dated February 16 (Tab C)

The memorandum recommends that until there is a vacancy a representative of the Department of State should attend the meetings as an observer. Mr. Merchant is suggested as State's representative on the Board.

It is believed advisable to have the Department represented on the Board, where its director would be in a position to influence decisions which affect United States relations with Panama. The State member would, in effect, be a voting political adviser to the Board. Rather than burden the Under Secretary for Political Affairs or the Assistant Secretary of State for Inter-American Affairs with this responsibility it is suggested that the Deputy Assistant Secretary of State for Inter-American Affairs might be named. In view of a larger role envisioned for the Ambassador, it is not considered appropriate that he serve on the Board.

It is recommended that you support this point of the memorandum.

13. Civilian Governor of the Canal Zone

February 16
The memorandum suggests that the next Governor of the Canal Zone, to be appointed in May of this year, "be a different man from the President of the Panama Canal Company and a civilian selected partly for qualities of tact and diplomacy." He should sit with the Board of Directors of the Panama Canal Company, the memorandum adds.

It is recommended that the Department support this point of the memorandum.

The United States military plays a triple role in the Zone and vis-a-vis Panama: it supplies the governor of the Zone, manages the Panama Canal Company, and protects the Canal. The Corps of Engineers, which has a brilliant record in operating the Canal, has traditionally furnished the governor, who by statute serves also as ex officio president of the Company. There seems to be no compelling reason today, as opposed to the conditions of 1903, 1917 or 1941, why the Canal Zone should be under a military governor. The presence of foreign military government is offensive to peoples who consider the governed territory to be their own. A military organization operates on the basis of command rather than persuasion. Military officers grow accustomed to obedience, and are concerned primarily with matters of their internal command rather than with those of external interests. Accordingly, a military command is seldom an instrument for civil administration under which civilians and foreigners can comfortably live or work. An individual commander may avoid arbitrariness but his military status projects to foreign peoples more of an aura of colonialism than would adhere to a civilian. The Panamanian press campaign against the "military mentality" of the present governor suggests that the Panamanians would welcome civilian governance of the Zone. It is believed that the Zone's government should be civilianized by the appointment of a capable civilian governor. He should in his dual role as governor of the Zone and president of the Company be responsible

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to the Ambassador on all matters affecting the Republic. A civilian governor should not report to the Department of the Army but to the Department of State or to the White House through the Department. It is our understanding that the appointment of a civilian governor could be effected by the President, subject to confirmation by the Senate, without further legislation.

It is our Legal Adviser's opinion that there is no legal impediment to naming a civilian Governor but the statutes call for the Governor and the President of the Panama Canal Company to be the same person (Tab D). Mr. Brucker, in a discussion with Mr. Merchant, indicated his view that by statute the Governor and the President of the Company must be an (Army) engineer.

In the event a civilian Governor, reporting to the President through the State Department or directly to the Department, is named, it would be desirable to have the stock of the Panama Canal Company transferred to the Secretary of State. At present the President has delegated the Secretary of the Army as sole stockholder.]

14. The Flag

In addition to the items of discussion described above, it is believed that mention should be made of the Panamanian request that the United States fly its flag in the Zone. A decision on the request has been delayed as a result of congressional opposition. Because of the negative attitude of the House of Representatives and the reported strong possibility of the Gross Amendment being included in the ^{Panama Canal Company} Department of Commerce appropriations bill, it is not recommended that steps be taken to fly the Panamanian flag in the Zone before more educational work can be done with Congress. [Governor Potter's precedent of March 1 in displaying ceremonial Panamanian flags received no unfavorable comment from Congress which leads to the belief some of the "sting" of this issue may have been drawn. The House Foreign Affairs Committee as yet has not made public its attitude toward flying the Panamanian flag.]

15. Gorgas Hospital Plan

The President wrote to Under Secretary Dillon on March 10 passing on an idea he had received from Mr. Ralph Cake, a director of the Panama Canal Company, that the facilities of Gorgas Hospital in the Canal Zone be used for a large scale training program (1000 trainees per annum) for the benefit and advancement of medical science in Latin America. The President asked for Mr. Dillon's comments in time for the March 21 meeting on Panama. We found that some preliminary work had been done several months ago and U/MSO has prepared a reply which states that the concept of such a program has struck a receptive note in the Department and would have a beneficial impact on our overall Latin American relations. ARA believes that the concept is much broader in scope and therefore should not be considered solely in the context of United States-Panama relations.

ICA has been requested by Mr. Dillon to examine the feasibility of such a hospital-medical training program at Canal Zone and also look into the form the program might take. (Draft of letter being sent Mr. Dillon 3/19 for signature)

It is recommended that no decision be taken on this matter until ICA completes its study.

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16. Other Policy Matters

Secretary Brucker's anticipated proposal is good from our standpoint but still doesn't go far enough in meeting other perhaps more important short and medium range problems requiring either a change of policy or at least a change in emphasis. These problems are described in Stage I of the S/P study on Panama and include the following: (Tab E)

1. Civilian Governor (if not discussed by Mr. Brucker)
2. Primacy of United States Ambassador over Zone
3. Civilianization of the Panama Canal Company
4. The flag (which requires further study as mentioned in item 14)
5. Formalization of policy planning within NSC structure
6. Decision on Isthmian sea level canal.

Mr. Merchant and I agree in principle with this program as outlined by S/P but do not believe that it should be presented unilaterally to the President, that we should discuss it first with Defense and Army.

We therefore recommend that you suggest to the President that we have several other policy matters which we would like to discuss with Defense and Army during the next week or ten days after which we would hope the President could receive us again to discuss these longer range aspects of the problem.

Attachments:

1. White House memorandum, February 16, with attachment Tab A.
2. Study of tariff concessions Tab B.
3. Proposed letter to Senate Foreign Relations Committee Tab C.
4. Legal Adviser's opinion Tab D.
5. S/P study on Panama Tab E.

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