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DEPARTMENT OF STATE

ASSISTANT SECRETARY

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February 15, 1960

TO : The Secretary

FROM : ARA - Mr. Rubottom

SUBJECT : PANAMA: Courses of Action to Forestall Further Demonstrations
Against Canal Zone

Problem

Since the House of Representatives became so interested in the question of whether the United States should permit flying of the Panamanian flag in the Canal Zone, the Department's ability to take any action on the issue has been severely limited. Because this is an emotional subject, a precedent for violence has been created, an election campaign is under way in Panama, and the Government of President de la Guardia is weak, it has been ARA's fear that mounting tension might lead to further violence directed against the Canal Zone. Reports from Embassy Panama and other intelligence sources indicate that there is increasing reference in Panama to a march on the Zone around March 1 -- Constitution Day -- or slightly earlier when the annual Carnival celebrations end. Mob violence would require our defense of the Canal Zone by force and be almost certain to involve numerous wounded on both sides of the boundary and possibly some deaths. A clash of this kind would create any number of serious problems, including the possible overthrow of the present Government, and should be averted if at all possible.

Discussion

The Panamanian Government is greatly concerned about its ability to control any demonstrations because of the weakness of the Guardia Nacional and the high emotional pitch reached by the mobs. The oligarchy which controls the country became acutely aware during the de la Guardia administration that the masses are becoming increasingly restive over their economic plight. The appeal to nationalism on the flag issue by a number of demagogues, some of them oligarchs, has added to the seriousness of the situation. The Government was so concerned that the mobs might turn against it if it attempted to quell a demonstration on November 3 against the Canal Zone that it held the Guardia in check until after the United States military forces stopped an attempted march into the Zone. Under Secretary Merchant's trip to Panama November 20-24 provided the Government with sufficient backbone

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to control an attempted invasion of the Zone on November 28. We re-affirmed our position that Panama had titular sovereignty in the Zone; the GOP requested that we fly the flag, and a sympathetic statement by President Eisenhower created an attitude which was bringing Panamanian-United States relations back to their normal friendly state. This situation has changed rather quickly since the Sub-committee on Latin American Affairs of the House Foreign Affairs Committee held hearings on the Selden concurrent resolution; the House passed it by a 371-12 vote, and Rep. Gross (R-Iowa) introduced a crippling rider to a Panama Canal item in the Department of Commerce appropriations bill. Panamanians reacted strongly to the House action and sent a strong note of protest to the Department on February 5. Press and radio reaction in Panama has been violent and has been creating strong resentment among the Panamanian public. The situation is ideal for agitators and nationalists to build up sentiment for another march on the Zone and the responsible elements in the country, with an electoral campaign under way, are loathe to counsel common sense.

Given the circumstances, the Department did not find it feasible to take any action on the Panamanian flag request. Revisions in policy requested by the President in October respecting luxury goods and third country purchases, while near solution, likely should not be implemented at this time if it appears they are being put into effect under duress. The immediate problem calls for the Department to take action now to ease the growing pressure from the mobs and maintain stable the situation in Panama until we are in a position to satisfactorily resolve the flag question.

On February 13 the Department informed Ambassador Harrington that he must impress upon the GOP the necessity of maintaining order and urging the GOP to inform its people of the impossibility of making an immediate decision on the flag question (Tab A).

As a further means of creating a more understanding situation in Panama, ARA suggests that you or the President issue a statement as soon as possible explaining that a flag decision is impossible at this time, clearly pointing out at the same time that measures we are taking to improve the country's economic situation cannot be continued if pressure of mob violence is present. A statement might have the effect of calming the situation in Panama, especially if it is later followed by announcements of the new policy on third country purchases and luxury goods sales once the pressure is relieved. It is possible that a Senate bill may be introduced in the next several days providing funds for a housing project in the Republic of Panama for local employees working in the Zone. Other publicity could be given improvements in the apprenticeship system in the Zone and any decrease in the number of security jobs now restricted to Americans. ARA believes that a carrot may be dangled before the 12,000 Panamanian employees in the Canal Zone by holding out the offer of a five-cent-an-hour wage increase. The directors of the Panama Canal Company have authorized this increase if the military establishment

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does likewise. It is felt that the Department should urge this action on the part of the military in time for any public announcement of the kind envisaged above.

ARA also proposes for consideration that the President, before his departure for Latin America, announce that he plans to name a group of prominent Americans to study on an urgent basis the problem of our relations with Panama and issue a report making recommendations for a future course of action (TAB B). In addition to making a recommendation about flying the Panamanian flag, the group would express its views concerning the administration of the Canal, the "Canal Zone attitude," and other subjects.

Naming of a group of Americans with national prestige would be an indication of the President's concern about U.S.-Panama relations; would take away from Congress the self-imposed role of attempting to dictate policies which must be based on treaty interpretations; placate Panamanians pending the study, and probably result in a number of recommendations which the Department would find reasonable and necessary for the future operation of the Canal in a friendly atmosphere.

ARA believes the fact-finding and recommendatory group should be named as quickly as possible and that part of the study should be conducted in the Canal Zone and in Panama. Members of the Senate and the House could be named to the group, although it might be difficult for them to be absent from their duties at the Capitol during the next few months.

Recommendations

1. That you approve issuance of a statement by the President or yourself explaining that an immediate decision on flying the Panamanian flag is impossible, and pointing out the impossibility of taking decisions advantageous to Panama under duress.

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2. That you discuss with the President the advisability of naming a group of prominent Americans to study Panama-U.S. relations and recommend to the President a future course of action.

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3. That you recommend to the Secretary of Defense that he seek funds immediately to enable the military establishment in the Canal Zone to match the Panama Canal Company's wage increase of five cents an hour for local-rate employees in the Zone.

APPROVE

DISAPPROVE

Attachments:

1. Telegram to Amembassy Panama dated February 13, 1960 (Tab A).
2. Memorandum from Mr. Stewart to Mr. Rubottom dated February 11, 1960 (Tab B).

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