

analysed, summarized and transmitted to the Embassy at Panama. However, before this Government was in a position to begin discussions with Panama on the defense sites, Opposition elements in Panama, anxious to embarrass the Jimenez Administration, openly attacked the two Governments for not carrying out the provisions of the 1942 Agreement.

The Opposition contends that the Defense Sites Agreement expired one year after the capitulation of Japan and that therefore the United States is in illegal occupation of the bases in Panama. The provision of the Agreement quoted above could not be clearer, inasmuch as there has as yet been no definitive treaty of peace, our continued occupation of areas in Panama is not illegal.

The Government of Panama understands our position but has been seeking some "symbolic" return of all bases still held before entering into the negotiation of a new agreement. Panamanian authorities admit that they are seeking a "face saving" device to use with that they are not, of course, prepared to accede to the Panamanian interpretation of the 1942 Agreement, no matter what the reasons may be for its position.

ARA - Mr. Briggs

Enclosure:
Press release

(This situation is about 90% smoke-screen put out by the Panamanian Opposition. There is no "controversy" between ourselves and the Panamanian Government.)

CC:AMW:seh:ml 9/12/46

Arnulfo was quite active during his stay in Chiriqui, after his release, and public sentiment was strongly in his favor. The Governor, strong friend of President Jimenez, is worried and stated that unless care was taken the entire province would swing in Arnulfo's favor. The Administration is more worried about Ariza now than it has been for some time.

Arnulfo's popular support is growing every day and his chances of winning a fair open election are considered to be very great. On the other hand, President Jimenez has not yet decided in allying all the political factions opposing Arnulfo and has lost a great deal of prestige.

Arnulfo's are apparently waiting with leftist to obtain an electoral law which will guarantee impartial elections. This would strengthen the opposition.

The National Assembly, according to press reports, is working on the draft law and has decided that the new electoral law should specify elections for May 3, 1948. The Arnulfo's do not like the draft law and are attacking this and other provisions through supposedly paid advertisements.

The attitude of a number of members of the National Assembly is becoming Arnulfo's and many supposed supporters of President Jimenez are veering toward Arnulfo and some are rumored to be considering resigning in order to be able to get on the "bandwagon" when and if Arnulfo takes over, according to C-2 Panama.

Should Venetrio Porres, return from London to organize all the leftist groups, he will be in a key position to influence the presidential victory for either the Administration or the opposition.

Sudden death of Pancho Ariza has upset the political plans of the Administration whose most probable candidates are Carlos Suore, Minister of Government; Ernesto de la Guardia, Jr., 1st Vice President; Dr. J. J. Vallarino, Ambassador to Washington; and Jorge Ramirez Duque.

Most important

of participation in the unsuccessful December coup sent a letter to Arnulfo, published on September 12, formally renouncing their membership in his party and charging him with abducting them. This would seem to confirm rumors that Arnulfo was attempting to disassociate himself from the "Gangster" elements among his followers and to prepare for a legal campaign for the presidency.

It is reported that on September 13 the ten altered their previous testimony and clearly implicated Arnulfo in the coup by stating that it was he who had told them which house in Colon contained the arms used. President Sanchez does not want to re-arrest Arias but it is entirely a matter for the court to decide.

There is no doubt that if the Administration handles this matter properly it will be able to break Arnulfo's party wide open; this is the best piece of luck that has fallen into the Administration's lap with regard to Arnulfo in the last six months, the Embassy reports.

Arnulfo's plans to proceed to Argentina were post-poned by publication of this letter and it reliably reported that he will not be leaving for four or five months. It has been persistently reported in the Arnulfoista press, even after the letter was published, that he was leaving.

On September 18 the Embassy reported widely different sources as stating that Arnulfo was planning a revolution sometime before February 1947.

OPAI:ASOL:am:hal 10/7/46

strategic plan for the defense of the Canal, drawn up in 1945 and revised in April 1946 calls for a total of 16 sites (counting 4 on Taboga Island as 1), 13 airwarning and control stations on public land only, 4 very small firing points and 40 additional areas which need not be occupied, provided the right to occupy them in case of emergency is granted. A list of the defense sites needed follows:

Location	Amount Expended	
	Up To Present	Prepared Additional Expenditures
(1) Air base at Aguadulce	\$ 772,000	\$ 11,000,000
(2) Air field at Chusque	1,472,000	6,000,000
(3) Infantry camp at Chorrera	228,000	9,500,000
(4) Air field at David	3,227,000	2,000,000
(5) Air field at Jacue	932,000	2,500,000
(6) Air field at La Joya	790,000	1,500,000
(7) (a) Air field at Pasquera	1,223,000	6,000,000
(8) (b) Infantry camp at Pasquera	1,500,000	3,000,000
(9) Air field at Mandinga	510,000	2,800,000
(10) Air field at Pito	900,000	80,000,000
(11) Air field at Peoré	5,324,000	3/4,000,000
(12) Air base and site at Rio Hato	1,257,000	880,000
(13) Air base and site at Rio Hato	1,257,000	880,000
(14) Taboga Island (4 main groups of sites)	382,000	500,000
(15) Taboguilla Island	Small	?
(16) Tole Junction	2,500,000	9,400,000
(17) 13 Air-Warning Stations		
(18) Firing points for anti-aircraft defense on Urrava, Melanes and Puerto Pileda Islands and at San Carlos, Salud & Tete River		
	\$ 21,711,000	\$ 2,390,000
		\$ 106,107,100,000

* Private land
 ** Will need maneuver rights in large area outside this camp.
 *** Wish to obtain 16,500 hectares of additional land here.

(2) The tunnel under the Canal.

(3) Moving of the railroad station, which would bring valuable land into the hands of Panama.

(4) Transfer to Panama of other lands in Panama City held by the United States.

(5) Transfer to Panama of the military reservation at Panama Point.

(6) The return to Panama of an installation at Chorrera which they wish to use as a hospital.

The Ambassador said the one item most desired by Panama was a \$25,000,000 loan. He added that the building of a tunnel under the Canal was not a point he would be anxious to press in any way.

General Barry felt agreements on the following should be included in any defense sites agreement which might be negotiated: (1) question of maintenance of roads; (2) use of cable and telegraph facilities; (3) aircraft control in Panama; (4) radio frequency control; (5) right-of-way to docks; et cetera.

CPA/DBS/Jan/1946 10/23/46

statement the President said the authorization did not necessarily apply to an external loan, however, he had previously sent his Comptroller General to the United States to see what the possibilities might be here. The Comptroller General was pretty much discouraged, as a result of his interviews in Washington.

The attached present newspaper clippings indicate that Panama still has hopes of getting a \$25,000,000 loan from the United States, but feels that because of the issue which has arisen over our continued occupation of defense sites in Panama under the 1942 agreement, the amount is not opportune to apply for the loan.

Ambassador Kines, following his visit to Washington in September, I believe, encouraged the President of Panama to presume that a loan would probably be obtained from the United States provided the El Deseado claim were settled and provided the loan could be distributed over a period of years and made available in payments not to exceed \$5,000,000 or \$10,000,000 at any one time. If a loan is obtained, I understand it would be used primarily in the construction of roads and school buildings. It is natural that the Export-Import Bank cannot give serious consideration to Panamanian desires in the above respect until it has received formal applications with specific conditions under which Panama wishes to obtain the money. Furthermore, Panama is making no move at present to pay the El Deseado claim.

OPAS/MS/10/10/48 12/24/48

that it is would be unwise to explore the possibility of withdrawing
willing to explore the possibility of withdrawing
from most of the defense sites prior to proceeding
with the negotiation of a new agreement. I asked
him what was contemplated by the word "most" and that
sites the Army would desire to remain in at this time.
He replied that there were only two which would prob-
ably need to be retained, i.e., Rio Hato and San José
Island. I told him that our position had been that
we were entirely justified in remaining in all the bases;
we appreciated very much, however, his suggestion and
would give it full consideration here.

CPA1BHWBogJmsh

On November 28 President Jimenez announced reductions, effective January 1, 1949 in all Government salaries as an economy measure and to bring expenditures in line with resources. Plans contemplate a scale of reductions ranging from 25% for the smallest salaries to 20% for the highest salaries. He indicated these reductions would probably continue about 6 months, and anticipated a prosperity period by the end of 1949 presumably because of plans to enlarge the Panama Canal.

To compensate for loss of salary, the Government plans to reduce the cost of living. If merchants are unwilling to reduce prices, the Government may establish stores to sell the daily essentials.

An editorial in la Estrella of December 6 criticizes both the salary cuts and Government stores to compete with private enterprises. It states that the Government's problems were not created primarily by reduced income, but by increased unnecessary expenses. It urges reconsideration of this economy measure because such a move might precipitate economic disaster, if private enterprises follow the Government's example.

Jim magazine of December 9 erroneously reported that the President's salary would be reduced \$600 a year, rather than \$300 a month as is the case. The assistant to the President of Lima, who was passing through Panama, called at the Foreign Office on December 6 to apologize and said the magazine would print a letter correcting the false information. The Embassy feels this satisfactorily closes the incident.

The Department sent a telegram to the Embassy, inquiring whether this economy measure applies to U.S. Government employees to be loaned to the Panamanian Government.

07 11 1948

of pending claims was discussed. Alfaro suggested that these might best be settled by arbitration rather than by a convention. Mr. Braden was in full agreement with arbitration but suggested that Dr. Alfaro might care to go into the matter further with Mr. Newbegin and Mr. Wise and see a copy of the draft.

On the matter of defense sites, it was suggested that an interim agreement might be made which would provide for joint trusteeship pending a new definitive agreement to replace the 1942 agreement on bases.

Dr. Alfaro was informed of the assignment of General McSherry as labor attaché to Governor McHatrey's staff.

CPA:RNewbegin:ram

endeavored to prepare public opinion for a new agreement. He had the cooperation of the Acting Foreign Minister and the press.

Statements made by Representatives Gane and Jager during their recent visit to Panama alerted the public considerably. The Representatives said that the United States must maintain defense areas in Panama or move the Canal, and added that further outlays of cash (investment) in the Canal Zone would be unwise pending a solution of the present defense sites lease.

Our Embassy is to be congratulated for its recent and present continuing strategy, approved by President Jimenez and supported by the press, of publishing every few days statistics which reveal to the surprise of many Panamanians just how much the economy of Panama is dependent upon United States activities on the isthmus.

It is significant that the Panamanian authorities late in December abandoned the previously taken position of Mr. Alfaro that no negotiations of any nature could take place toward a new agreement until all defense sites had been returned. Panama accepted our proposed new draft agreement for consideration and discussion. Without any request for a "joint trusteeship" or an interim arrangement. In fact, it seems that the question of how to give the 1942 agreement and satisfy Panamanian views is ^{being} ~~now~~ important. In principle there seems to be agreement between the Embassy and Panamanian authorities that once the termination of the defense sites agreement has been worked out, then some ~~new~~ ^{new} announcement of the return of the ~~land~~ ^{land} may be made to begin effective at the same time as the entry into force of the new agreement.

Panamanians

The Panamanians are prepared to move ahead provided we agree to comply with certain requests which have been of outstanding interest to Panama. The Panamanian officials need something to announce to the people and obviously we will have to be prepared to approve a loan or build some roads and/or comply with certain other requests.

OPAIKXU1seidml 1/2/48

unsuccessful union coup of December 21-22, 1947. The decree would seem to exclude Arnulfo Arias and others provisionally released, as well as those still in jail.

This move by President Jimenez came as a surprise. According to one story, the police suggested it on the theory that those Arnulfitas under detention who have become disaffected and who have publicly resigned membership in Arnulfo's party (It will be remembered that ten detained Arnulfitas in September signed a letter resigning from the party and denouncing Arias for abandoning them) will be far more useful to the Government out of jail than behind bars.

The Embassy also feels that this action should be considered in the light of persistent rumors to the effect that President Jimenez has been attempting informally and indirectly to establish contact with Arnulfo Arias.

Despatch No. 3502 of January 3, 1947 from Panama.

OPAI:RBennett:par

of the attached newspaper clippings sent up from Panama by Murray Wise.

The idea of a Nicaragua canal has burst into the limelight again, with the Panama American giving headline treatment to reported consideration by Canal Zone authorities of such a plan.

Arnulfo Arias has also entered actively into the situation with the distribution of a handbill Manifiesto Al Pais, alleging that the United States is making "preemptory demands" and that J. R. Wise has brought to Panama the draft of an agreement which appears "honorable" for Panama and which would make a permanent question mark of the national sovereignty. Arias takes pot shots at President Jimenez and the provisional character of his Government and calls for the election of a constitutional Government before proceeding with an agreement on bases. He also demands that Jimenez make known to the country the details of the agreement proposed by the United States and that any such accord be submitted to a popular referendum before being presented for the consideration of the National Assembly.

Mr. Wise interprets recent developments to mean that Hermodio and Arnulfo Arias and others are out in earnest for Jimenez' scalp.

Enclosures

Clippings as described above.

CPA:FTBennett:MLD

official commitment to the government of Panama to return to the Panamanian nation all of the sites offered to the United States during the war as air bases is invariably regarded as a sign that the United States intends to enforce its own wishes upon the weaker Republic of Panama.

You may recall that I have pointed out on various occasions that it was Sumner Welles, as Under Secretary of State, who during the negotiations of the 1944 Agreement with Panama insisted that the termination of the accord must not be effective until a year after the definitive treaty of peace had entered into effect. In talking to the Panamanian Foreign Minister in Washington, Mr. Welles pointed out that it was conceivable that the emergency might continue for a period of from 5 to 10 years after the cessation of hostilities and that during that period we would have to be in a position to use bases in Panama if the situation made the continued use necessary.

OPAI MEMORANDUM 2/19/47

Despite rumors... the meeting to nominate a Liberal candidate for the 1948 presidential election now seems definitely scheduled to be held in Chile this coming week-end. By his refusal to show annoyance or to take issue publicly in differences among Liberal leaders President Jimenez has managed in the past few weeks to restore at least the appearance of harmony to the party ranks.

Domingo Diaz Argente, who holds no Government position at the present time, is regarded by the Embassy as the most likely nominee, despite the fact that he is a weak politician with no dynamic qualities. Alfredo Rojas has been flirting with Diaz, and the two are reported to have made a deal.

Another strong candidate for the Liberal nomination is Ernesto De La Guardia, Vice President of the Republic. By playing on the magic name of colored vote in the terminal elites and by trading on the popularity and the funds of Rojas, who died last summer at the height of his popularity in 1945, Diaz generally conceded to have the inside track for the presidency in 1948. De La Guardia has built up a considerable following. Although Diaz is considered to have the best chance at the moment, De La Guardia's name will carry great weight in the convention.

Minister of Finance and Treasury Daniel Chanis is another Liberal aspirant who has received considerable publicity during recent months. He lacks popular support but is backed by powerful figures within the Liberal ranks who will use their influence in his behalf in convention maneuverings.

Also regarded by the Liberals at the present time as serious presidential aspirants are Foreign Minister Alfaro and Ambassador to the United States Vallarino. Although Alfaro has disclaimed interest in the nomination, his prestige has never been higher, and he was reportedly approached recently by President Jimenez, who is said to regard him as the only truly national figure among the Liberal possibilities. Alfaro is not a popular figure, however, and his nomination would have to come through maneuvers by the political bosses. Vallarino enjoys a good reputation in Panama and has been friendly with Jimenez; his hopes have been clearly reflected in statements made by him in Washington and during his current visit at home. Both Alfaro and Vallarino should be considered as dark horses.

IPAWRBAW0511:eh

4/26/47

4/27/47

against the present Government of Venezuela (meaning that Wendehake and Arias presumably are in Venezuela plotting the overthrow of the present administration) the Panamanian Foreign Minister, Octavio Fábrega, brother-in-law of Wendehake, recently signed a resolution declaring Wendehake persona non grata and cancelling his permit to reenter Panama.

Arias, now in Venezuela, in a statement to the Press, roundly denied any truth in his reputed Naziism. To date, his public activities have been confined to selling himself to the Venezuelans as a new "medico" in their midst.

Reporters in Maracaibo apparently were favorably impressed with Arias. The Morning Herald is the only Caracas paper which has given much publicity to the arrival of Arias. It has stated that the Berlin radio has lauded him, that the Nazis do not give him praise without reason, and that his permission to enter Venezuela should be revoked.

RA:R:SE:GM

UNITED STATES COLORED TROOPS IN THE
REPUBLIC OF PANAMA

Ambassador Wilson has informed the Panamanian Government that so far as the United States is concerned, the negro troops who have been sent to the Republic of Panama for the specific purpose of constructing telephone lines to Aguadulce can be withdrawn as soon as their present mission is concluded, about the end of March. Ambassador Wilson informed the Acting Minister of Foreign Affairs that in view of President de la Guardia's request, General Andrews had agreed to have the construction of the telephone lines continued to David, if Panama desired this done, but that it would be necessary for the colored company to remain after the end of March to do this additional work.

The Acting Panamanian Minister of Foreign Affairs, when informed that the United States Army authorities were conversant with the policies and views of the Panamanian Government regarding the presence of negroes on the Isthmus, expressed his appreciation for the understanding and cooperation shown in this

matter

Government of the negro company remained
on Panamanian territory for the completion
of the telephone lines to David.

811.2319/792

RA:Wise:5JS

1/4/LD - Mr. Duggan

EXHIBITION'S NEEDS THAT WILL BE MADE
AVAILABLE FROM THE GOVERNMENT'S BUDGETARY
FUNDS TO THE PUBLIC WORKS ADMINISTRATION
FOR THE YEAR OF \$3,500,000 FOR THE EXTENSION
OF THE TRANS-ISLAMANIAN HIGHWAY

I attach a copy of the Department's letter, dated January 6, 1942, to the Bureau of the Budget concerning the need of funds for the extension of the Trans-Islamanian Highway. Mrs. Logsdon and Mr. Frank are informed of this request and I have been in constant communication with Mr. Trot of the Budget with whom our request has been thoroughly discussed. On Saturday morning Mr. Hall, Public Works Administration, came in and together we gave Mr. Trot some of the more technical aspects, such as distances and estimates, which are involved in the extension of this highway.

Perhaps you will recall that in 1940 when the President was requested to allot \$3,675,000 from his funds for the Caliva-Madden Dam section of the Trans-Islamanian Highway, he was at first insistent that the Panamanian

Government

The Bureau of the Budget is sympathetic with the present request, but feels it can be more successful this time if, on presenting this matter to the President, the argument can be thorough and concise, and well-backed by the State and War Departments, and the Public Roads Administration. For this reason representatives of the three organizations mentioned are being invited to a special hearing in the Bureau of the Budget on Tuesday morning.

The Bureau of the Budget anticipates that the representatives to the hearing will be asked why the extension of this highway cannot be postponed. In answer thereto it seems that this Department could be prepared to argue as follows: The General spirit of the Trans-Isthmian Highway Convention between the United States and Panama which accompanied the 1936 Treaty of Friendship and Cooperation was to obtain from the Panama Railroad Company a waiver of its exclusive right to establish roads across the Isthmus of Panama in order that the Republic could interest itself in the building of

through the Canal Zone, would connect the cities of Panama and Colon lying at opposite ends of the Canal.

Because of the present emergency, the War Department decided that for military expediency the status of the P-8 project between Roque and Pueblo Nuevo, for which the right of way had already been obtained from the Panamanian Government, should be changed from that of a military access road into that of an extension of the Trans-Isthmian Highway. The desirability of this change has not only been brought to the attention of the Panamanian Government by officials of the War Department, Public Works Administration, and by Ambassador Wilson, but pending a modification of the Trans-Isthmian Convention and a modification of a subsequent "Memorandum of Procedure for the Construction of the Highway", the Government of Panama has already given authorization for the initiation of preliminary work on this highway.

The War Department now has restricted the use of the Madden Panama Canal City road largely to military use. Such restriction although absolutely necessary from the military point of view, is areas vital to the defense of the Canal are to be adequately protected, conceivably could be construed as an act which conflicts with the general spirit of the Trans-Isthmian Highway Convention of 1936, which provided in effect, that

Panama City Road ...
In view of these circumstances, to postpone the execution of the highway on which Public Works Administration has already begun preliminary construction work would be politically embarrassing and inexpedient, and might well be considered as an act of bad faith on the part of this Government. The Panamanian Government has shown great interest and enthusiasm for the completion of this road which, it is planned, will eventually be one of the links in the Inter-American Highway.

819.154

NA:Rise:FJS:QKB

ADDITIONAL MEASURES OF COOPERATION
IN THE PRESENT EMERGENCY WHICH
HAVE BEEN TAKEN BY THE
PAKISTANI GOVERNMENT

1. All Government employees are to be placed on a war footing, to be ready to render official service at any hour of the day during the present emergency.

2. The Committee of Civilian Defense has become a part of the National Government and has been incorporated by official decree into the Ministry of Government and Justice. The Committee is constructing air raid refuges in 14 places in Karachi city and has provisioned to aid all those who wish to construct private air raid shelters.

3. The Commission of Control of Prices has been reestablished and is to be part of the Ministry of Agriculture and Commerce. It will have control of wholesale prices and especially of prices of articles of prime necessity.

The Government, in order to encourage a greater interest in agriculture, has announced that a million dollars

School of Agriculture.

4. Final warning has been given that violators of the rules governing blackouts will be severely punished. The National Police have been given orders to arrest all persons engaging in suspicious activities.

5. A decree of December 22, 1941 prohibited the immigration of natives of countries now at war with Yenan, and restricts the immigration of natives of countries now occupied by Germany, Italy or Japan.

740.0011 Pacific War/1415

RA:Rinehart

Handwritten scribbles and initials, including a large 'A' and 'OK'.

January 6, 1942

FRENCH FINANCIAL BUDGET

France's total revenue for 1941 amounted to 117,621,459. Expenditures amounted to 118,046,119. The total revenue for 1941 was derived as follows: 40.8 percent from import taxes; 20.4 per cent from internal taxes; 16.3 per cent from the national lottery and other state-owned enterprises; and 16.5 per cent from all other sources. 76.4 per cent of all Government expenditures in 1941 were used to maintain the various ministries. Of the remainder 22.9 per cent was used to serve the national and internal debt; and .7 per cent was used for special funds.

France's budget for the biennium (1941-1942) is given in the following table and a comparison is shown with the figures of income and expenditures for the years 1939 and 1940.

	1941-42	1939-40
Government and Justice	7,112,593.00	4,200,000.00
Foreign Affairs	1,000,000.00	1,021,472.00
Finance and Treasury	2,250,000.00	2,139,310.00
Education	5,010,000.00	4,650,000.00
Health and Public Works	6,574,000.00	5,175,595.00
Agriculture and Commerce	1,500,000.00	
Comptroller General of the Republic	336,000.00	274,100.00
Public External Debt	1,500,000.00	3,410,000.00
Public Internal Debt	3,110,000.00	1,290,000.00
Unforeseen expenses	400,000.00	70,000.00
	<u>26,832,593.00</u>	<u>23,755,000.00</u>

The biennial budget for the years 1941 and 1942 (the fiscal year runs from January 1 to December 31) was presented by

-2-

by President de la Guardia on December 10, 1941, with the statement that the previous National Assembly failed to publish any budget for a similar period or to issue any statement of income and expenses.

When the 1941-42 budget was compiled the amounts of revenue that would be available during the biennium was given unknown and the various ministries and agencies were given a flexible budget aggregating for the biennium \$30,127,977. Revenues were considerably higher than was thought possible when the budget was adopted and in the last report received from the Commercial Attache it was estimated that by the end of the biennium on December 31, 1942, the budget would aggregate \$37,000,000.

In spite of the decrease in the relative value of imports as a source of revenue during the first nine months of 1942 compared to 1941, increased prices of imports serve to bring about an absolute increase in ad valorem revenue over a comparable period of 1941, even though the total quantity of imports was relatively less. Huge imports of whiskey and other liquors account largely for this increasing revenue.

In the first nine months of 1942 the maintenance of government ministries accounted for 21.1 per cent of total expenditures. Actually the greatest increase (over 10 per cent) was reflected in the expenditures of the Ministry of Health and Public Works.

As of September 1942, revenues from all sources had exceeded budget estimates up to that date in the amount of \$7,109,999.39.