The 50s - A Decade Of Great Changes In The Canal Zone



The Administration Building as it looked shortly after its completion in 1915. (PCC)

INTRODUCTION

It began with a question about 60 cycles. One of the readers of "The Panama & Canal Zone Blab" asked if I knew when the Canal Zone converted to 60 cycles. Looking into the matter I found it had taken place during the 1950s, but more important I found there had been many more significant changes during the same decade. These were changes that not only affected the way the Canal was run, but also the lives of those working there. One of these changes had a profound effect on my life.

Spurred on by these facts, I found myself getting into deeper water as I researched what took place during that eventful decade of the 1950s. To do so it became necessary to go back to the beginning of the 1900s in order to understand what happened later. After much research I still found the organization that operated the Canal until 1951 somewhat of an enigma.

There were three branches that made up this organization: the **U.S. Government**, **The Panama Canal** and **The Panama Railroad Company** (PRR). My best efforts to get an idea of the responsibilities of the last two were in vain as the only Organization Chart I found, "Effective July 1, 1950", lists all the main departments but does tell which reported to <u>The Panama Canal</u> and which to <u>The Panama Railroad Company</u>. My guess is that those departments under the headings of STAFF and ADMINISTRATION reported to <u>The Panama Canal</u> while those under the heading of OPERATIONS reported to <u>The Panama Railroad Company</u>.

The best information came from two booklets published by Jay J. Morrow, (Colonel, U.S. Army, retired) Governor of The Panama Canal in 1923). One is "The Maintenance and Operation of The Panama Canal". This booklet is from a lecture that Governor Morrow gave to the American Society of Civil Engineers (New York Chapter) and to the Society of Civil Engineers of Washington, D.C. in January of 1923. The other booklet is "A Great People' Great Canal".

The other most helpful source were issues of the newly established "*The Panama Canal REVIEW*" newsletter created by Governor Newcomer in 1950. But still, the actual roles and responsibilities of the two branches in the Canal Zone eluded me. Finally, as I read more from the internet and the "REVIEWS", a clearer picture began to form in my mind. I have tried to project this picture with this article and hope it proves helpful in understanding what was a complex organization.

THE PRELIMINARIES

It is well known that the idea of a canal through the Isthmus of Panama goes back to the days of the Spaniards. There is also well documented information about the French private company effort in Panama while Panama was a part of Colombia. When it became known that the French had failed, the United States took up the matter of a canal in earnest.

The U.S. had already been involved in many studies, both in Nicaragua and the Isthmus, and in 1872 created the Interoceanic Canal Commission (not to be confused with the Isthmian Canal Commission) to carry out studies under more formal conditions with support from the government. This Commission closed its doors in 1876 but was replaced, in 1881, by the Provisional Interoceanic Canal Society. In 1887, another society, The Nicaragua Canal Association, was founded for the purpose of promoting a route through that country. Other societies and organizations also picked up the banner for the Nicaraguan cause and, by 1899, both the American Government and the people could think of no other place than the Nicaraguan isthmus for building a canal. The hoopla was such that, when elected, President McKinley recommended building a canal in Nicaragua.





The French Canal Company working at Culebra cut (CM) and dredging near Mindi on the Atlantic side around 1898. (CZI)

The failure of the French effort in Panama was well-known by now and it was not surprising that in December 1898 the Compagnie Nouvelle de Canal (The New Canal Company) approached the U.S. Government with a proposal to transfer its rights and properties to the United States. They pointed out the fact that much construction and engineering was already done and promoted the advantage of the shorter route.

Accordingly, on June 10, 1899, President William McKinley, with the approval of Congress, appointed the <u>first</u> Isthmian Canal Commission (ICC) with a budget of \$1 million to make a full study of all routes previously considered, including the acquisition of the French project. In its report of November 1901 the first ICC narrowed its choice to the Nicaraguan and Panama routes and recommended the

Nicaraguan route. However, on January 18, 1902, it appeared to have a change of heart and recommended the adoption of the Panama route instead. The <u>first</u> ICC then ceased to exist for all practical purposes.

THE PANAMA CANAL ACT OF 1902 - Also Known As the Spooner Act

On January 9, 1902, the House of Representatives passed what became known as the Hepburn Bill, for Iowa representative William Peters Hepburn, and it was promptly forwarded to the Senate. The Hepburn Bill authorized the construction of a canal in Nicaragua.









(L-R) President William McKinley, Senator John C. Spooner, President Theodore Roosevelt (UNK) and George W. Goethals, Chief Engineer of Construction and First Governor. (PCC)

By now, Roosevelt was president, following the assassination of McKinley (President McKinley was shot on September 6, 1901 and died of gangrene on September 14), and he favored the Panama route as well as the acquisition of all the French assets. Using behind the scenes maneuvers, he had Senator John Coit Spooner of Wisconsin introduce an amendment to the Hepburn Bill on January 28, 1902. This amendment "... authorized the President to acquire the French company's Panama property and concessions at a cost not to exceed \$40,000,000; ..." (3). The Hepburn Bill, with the Spooner amendment, was passed on June 28, 1902.

The Panama Canal Act of 1902, aka The Spooner Act for its author, (32 Stat. 481; Public Law 183)** also authorized the President to negotiate and purchase land from Colombia. Additionally, it placed a time limit on this negotiations stipulating that, if no agreements were reached within that period, The Panama Act would be most and the United States would return to the Nicaragua route.

The Panama Canal Act also included several other important features:

- 1. It determined the exact geographic borders of the Panama Canal Zone.
- 2. The Isthmian Canal Commission would be dissolved when no longer necessary.
- 3. A U.S. Government would be set up in the Canal Zone.
- 4. Gave the right for the U.S. to calculate tolls.
- 5. Tolls were not to be levied against U.S. coast-to-coast shipping.
- 6. U.S. courts and legal system would be established in the Canal Zone.
- 7. Limitations were placed on railroad corporate interests in the Canal Zone and its traffic.
- 8. Gave the right to establish martial law by the U.S. Army over the Canal Zone in time of war.

Negotiations with Colombia failed, but by establishing a new nation on the isthmus, on November 3, 1903, Roosevelt was able to attain his ambition for the canal in Panama instead of Nicaragua. Using The Panama Canal Act (Spooner Act) as a guide, a treaty was rapidly made with the new Republic of Panama.

THE SECOND ISTHMIAN CANAL COMMISSION

With all negotiations finally completed and the Panama Canal route established, the **second Isthmian Canal Commission** was established by President Roosevelt on March 8, 1904. Then, by Presidential Order of May 9, 1904, using the authority of the Panama Canal Act of 1902 (32 Stat. 481; Public Law 183), and the Panama Canal Act of 1904 (33 Stat. 429; Public Law 190) of April 28, 1904, the Secretary of War was made supervisor of the second Isthmian Canal Commission which was responsible for the construction of the canal and was vested with all Canal Zone government powers. Work on the canal proceeded under this organization until 1912.





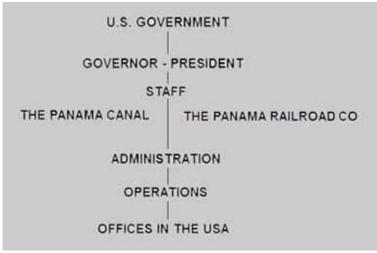
Digging at Culebra Cut by the ICC and construction of the Locks at Miraflores. (PCC)

As the canal construction approached its completion, Executive Order #1885, pursuant to the **Panama Canal Act of 1912** (37 Stat. 560; Public Law 337) of May 24, 1912, assigned "governmental functions" to a permanent branch designated as <u>The Panama Canal</u>. It is my belief that shortly afterwards <u>The Panama Railroad Company</u> was given certain operational controls of the Canal and on January 27, 1914, the <u>second</u> ICC came to an end. This action created the Triumvirate that was to run the Canal for the next 65 years.

THE TRIUMVIRATE

The U.S. Government

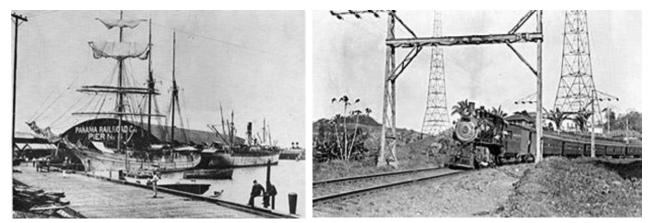
The first branch of this "Triumvirate", and the one on the top of the organizational triangle, was the <u>U.S. Government</u>. This branch was headed by the President of the United States with the Secretary of War being the direct contact to the Governor in Canal Zone. There was also a Board of Directors for The Panama Railroad Company with offices in New York and an office for The Panama Canal in Washington, D.C. Additionally, both the Senate and the House of Representatives had subcommittees dealing with the issues concerning the Panama Canal.



Organization Chart prior to July 1, 1951. (LRC)

The Panama Railroad Company

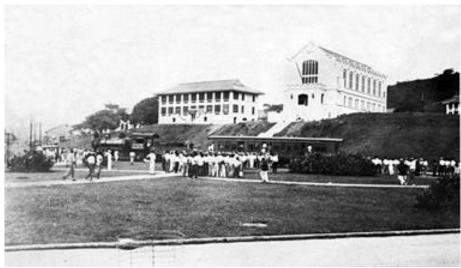
One leg of the Canal triangle was the <u>Panama Railroad Company</u> (PRR) with the Governor of the Canal Zone being its nominal head as President of the Company. As such, he reported to the Board of Directors in New York.



The Panama Railroad Company docks at Colon (PCC) and PRR passenger train passing by old U.S. Navy Darien Radio Station towers between Gamboa and Gatun. (CZI)

The Panama Railroad had been built with a concession from Colombia, a contract that specified that Colombia had the right to purchase the road in 1875 for \$5 million (it was estimated the road had cost \$8 million and was paying 24% dividend on that amount). The U.S. investors, not wanting to lose this profitable investment, made a new contract with Colombia in 1867 whereby The Panama Railroad paid Colombia \$1 million and promised to pay \$250,000 a year in return for a 99 year franchise. When the French bought the railroad, this arrangement remained in place but the railway functioned as an integral part of the construction company. However, when the U.S. Government acquired the PRR, it was kept functioning as a separate corporation, yet a part of the canal. Nevertheless, the situation of the PRR was a strange one in that it was owned by the United States Government, operating under a concession of the Republic of Colombia and doing business under a charter of the state of New York.





PRR Engineer Max Englander and Conductor. PRR Pay Train at Balboawith St. Mary's Church in the background. (CZI)

Colombia maintained that the railroad, and the city of Colon, which was built on land owned by the PRR, would revert to Colombia at the end of the 99 years of the concession (1966). After years of negotiations and diplomatic exchanges, Colombia signed a Treaty with the United States on April 6, 1914 in which, for the sum of \$25 million Colombia renounced all claims to Panama and the Panama Railroad Company, recognized the Republic of Panama and re-established diplomatic relations with the United States. However, the U.S. Senate rejected the treaty. Negotiations continued and, finally on April 20, 1921, the U.S. Senate approved the treaty with the President signing it on January 11, 1922. The Colombian Government ratified it on March 1, 1922 and was proclaimed on March 30, 1922, ending the state of Limbo in which the PRR had existed.

In 1923, Governor Morrow explained the functions of the Panama Railroad Company in his booklet as follows:

"The Panama Railroad antedates the Canal by half a century. It came into the possession of the United States from the French in 1904. The PRR still operates as a corporation but it is owned by the U.S. Government. The Secretary of War appoints the Board of Directors and the Governor of The Panama Canal is President of the Company."

Accordingly, Governor Morrow went on to explain that the PRR had an office in Washington that handle's the State's work, such as purchases and inspections of supplies, as well as maintaining a line of communications with the government, particularly with the Secretary of War.

Governor Morrow pointed out that the PRR operates two dry docks in the Canal Zone, one at Balboa and the other at Cristobal. This organization also operates the shops equipped to handle all repair work for the operation of the Canal as well as that of visiting vessels; it manages the oil and coal storage facilities; runs the Commissary Department; the abattoir and packing plants; as well as two hotels. He goes on to explain that all these enterprises are run with Panama Railroad Company funds. . . "but

except for purposes of accounting the distinction is unimportant. They [the enterprises] are all integral parts of the Panama Canal organization."

The PRR also ran the Panama Railroad Steamship Line, later known simply as The Panama Line.





Governor Jay J. Morrow and the Panama Railroad Co. ship "S.S. Ancon". (PCC)

The Panama Railroad continued to operate in the manner explained by Governor Morrow until June 29, 1948, when the U.S. Government passed The Panama Railroad Act of 1948 (62 Stat. 1076; Public Law 808) as an amendment to the Canal Zone Code of June 19, 1934, with the addition of Article 3. This long Article re-incorporated the PRR making it the official operating arm of The Panama Canal.

The Panama Canal

The other leg of the canal triangle was <u>The Panama Canal</u>. This branch was under the direction of the Governor of the Canal Zone, who was the same person as the President of the PRR. As Governor, he reported directly to the Secretary of War.





Canal Zone District Court House and Pedro Miguel Locks. (UNK)







The Ancon Dispensary, the Miraflores Water Plant and Frank P. McLaughlin working at the plant. (CZI)

The Panama Canal dealt with the government and administrative functions of the Canal Zone such as operations of the locks, marine pilots, admeasurers, finance, justice, police, firefighting, immigration, customs, post office, personnel, sanitation, health, hospitals, quarantine, roads, etc. The functions of this branch of the Canal were financed through appropriations by Congress. As Governor Morrow put it, "We are relieved from the blight of fiscal year limitation; in other words, an appropriation remains available until expended." (5). He explained that this allows the Canal to take care of replacements and repairs without waiting. Meanwhile, tolls go directly to the Treasury Department.

And, so, with minor adjustments to the organization, life went on in the Canal Zone with Americans working for either the Panama Canal or The Panama Railroad Company receiving wages with a 25% additional "tropical differential" over similar grade Civil Service jobs in the USA with the benefit of being income tax exempt.

All this was about to change in the 1950s.

THE FAR REACHING CHANGES OF 1950-1959

Hard Times

On May 5, 1950, the Governor of the Canal Zone announced that "The downward trend of the Canal-Railroad forces which has continued almost steadily for more than five years is expected to level off during the first part of the fiscal year 1951 and there presently seems little likelihood that employees in

permanent positions at the end of June will receive force reduction notices." (8). The reduction in the number of employees of the Canal-Railroad was expected as the organization changed from a wartime condition to a normal situation.

The increase in number of employees actually began in 1938 when construction of a third set of locks began. When war came this project was suspended, but war time requirements demanded a continued increase of personnel. The workforce, that had numbered 13,800 in 1938, reached a peak of 38,000 by 1942. Once the war was over, it was impossible to maintain this level and a reduction of the workforce was begun. By the time the Governor made his announcement in May of 1950, the workforce had been reduced to some 19,600 employees (figures used include both U.S.-rate and Local Rate employees.)

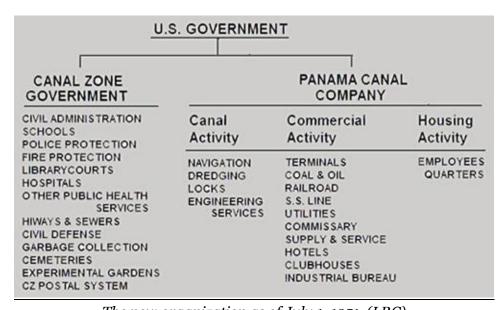




The construction of the third set of lock brought the need for workers. The clubhouse of the new town of Cocoli (Pacific side) is shown here. On the Atlantic side the town of Gatun was expanded. (CZI)

While this reduction in the work force had been expected at the termination of World War II, it represented real hardship for those affected and uncertainty for the rest while the shrinkage took place. This uncertainty of job security during the years of 1945-50 was recognized by Canal officials as "being the most disruptive factor to the organization and employee morale of the post war years." The reassuring statement by the Governor on May 5, 1950, "that the levelling off point is at hand will allay the fears of hundreds over whom have hung the specter of a reduction notice for many months." (8).

Fundamental Organization Changes



The new organization as of July 1, 1951. (LRC)

On September 26, 1950, Congress passed an Act (64 Stat. 1038; Public Law 841) amending Section 5 of Title 2 of the **Canal Zone Code**, approved June 19, 1934 (48 Stat. 1122; Public Law 431) to read as follows:

[&]quot;5. ESTABLISHMENT, ADMINISTRATION, AND FUNCTIONS OF CANAL ZONE GOVERNMENT.

The independent agency of the United States heretofore known as The Panama Canal shall hereafter -

(1) be known as the Canal Zone Government;"

The Act also stated that said government would be administered by a Governor and would "(3)... be charged... with the performance of the various duties connected with the civil government, including health, sanitation and protection of the Canal Zone."

This Act, on Sec. 2, also stated that the terms "the Panama Canal", "the Canal', and "the Canal authorities" will no longer be used and, instead, the term **Canal Zone Government** will be substituted.

Additionally, the term "The Panama Railroad Company" was replaced by the name The Panama Canal Company. The law created The Panama Canal Company "for the purpose of maintaining and operating the Panama Canal and the conduct of business operations incident to such maintenance and operations." The law required that the Company be self-sufficient and that it must pay the net cost of the Canal Zone Government, under which were placed civil governmental functions, including sanitation and public health.

On September 26, 1950, President Truman signed the bill and it became Public Law 841. The same day, through Executive Order 10263, he directed these changes to be made effective July 1, 1951. (26).

"The law [841] providing for the incorporating establishes the fundamental principles and basic formula for the change. Of primary importance, it calls for the new company to pay its own way, a condition which the Senate report termed unique in Government annals.

"Unlike the present unwieldy method of operating the Canal on appropriated funds and returning tolls and other revenue into the Treasury, the new company will be permitted to use the income it receives from the Canal and other operations to meet its current expenses." (9).





The Locks with the new tow locomotives (LRC) and the renovated Balboa Clubhouse with the new Theater around 1952 (CZI)

The process of changing the complicated financial structure from a system of government accounting to corporate accounting was a difficult and long one . . . 4 to 5 years. It involved setting up books such as a private corporation keeps of its profits and losses rather than the usual governmental system of simply accounting for appropriated funds. My cousin Frank Albert Baldwin headed the accounting team that inventoried all the assets of the Panama Canal in order to establish a value base.





The Ancon Post Office, about 1940(CZI), and Balboa High School around 1950. (LRC)

By then, changes in the cabinet of the President of the United States had created the position of Secretary of Defense, eliminating the Secretary of War. The Secretary of the Navy was placed under Defense as were the newly created positions of Secretary of the Army and Secretary of the Air Force. Subsequently, the Panama Canal was placed under the direction of the Secretary of the Army. The Governor's official title became <u>President-Governor</u> with his functions including that of President of The Panama Canal Company and Governor of The Canal Zone Government. Now, the 13-man Board of Directors, all appointees of The Stockholder (the Secretary of the Army), had to play a real part in the affairs of the Panama Canal. The Chairman of the Board continued to be the Assistant Secretary of the Army. In the past, the Board of Directors of the Panama Railroad Company seldom held meetings as theirs was just a figurehead assignment. After the re-organization, though, the Board held regular meetings in New York which required the presence of the President-Governor.



The re-organization took place during the administration of Governor F.K. Newcomer, 1948-52. (PCC)

It was determined in 1950 that the tolls charged by the Canal would not be sufficient to cover the cost of operating The Panama Canal Company and The Canal Zone Government. Thus, Public Law 841 provided for the adjustment of tolls to meet the expenses and for the first time prescribed a formula by which that could be done.

NOTE: This change had a profound effect on my life. During my senior year at Texas A&M I had been in correspondence with the Personnel Department of the Panama Canal Company. By the time I was about to graduate, I was informed that there was an opening for an admeasurer. I graduated in May of 1955 and, on arrival at Panama, went to see the Personnel Manager about the position. I was informed that the position had been eliminated by attrition as they were going through some hard economic times. There were no other jobs available in Panama or the Canal Zone for me and, by November, I was forced to leave home and move to the USA to start a new life.

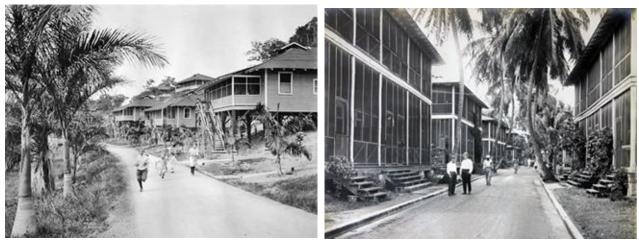
Income Taxes Arrive

"Canal and Railroad employees got the full impact and significance of income taxes when they received their two January pay checks with the withholding tax deducted from them." With that statement, the February 2, 1951, issue of *The Panama Canal REVIEW* introduced the employees of the Canal Zone to a world in which the rest of the U.S. citizens lived.

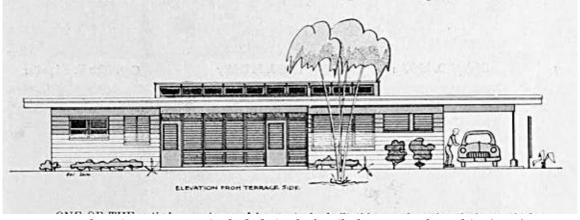
The employees of the Canal Zone had been fighting this issue for months and their presentations to Congress had included charts that showed how an employee with a family consisting of four people on a salary of \$5064 a year in 1950 would end up with an income deficit of \$177. All to no avail. In 1951, they joined legions of Americans who had been paying income taxes all their lives.

New Housing Program

During this decade, a much needed housing replacement program was started which, when completed in 1956, spent some \$80 million replacing obsolete and sub-standard quarters. Housing included various types and sizes, mostly made of masonry. Quarters were built at Paraiso, Ancon, Balboa, Diablo Heights, Margarita, Gatun and Summit. Sites or townships that were abandoned included New Cristobal, Pedro Miguel and Red Tank. Cocoli was transferred to the Navy. Many old wood structures, some dating back to the French Canal days, were demolished.



Typical old wooden housing in Balboa and Cristobal. (CZI)

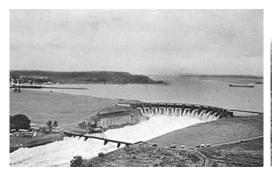


New housing program included single family houses such as this. (PCC)

60 Cycle Electric Power Conversion

"The Canal builders understandably expected that the bulk of the power load would be used by heavy electrical equipment for the locks operating machinery, in the shops, quarries, piers and refrigeration plants. Since 25-cycle current has great advantages in driving heavy, slow-moving equipment such as the lock gates, valves which control the water in the locks, towing locomotives and similar equipment used in the industrial areas and at the piers, the choice by the Canal builders was a logical one. At the time of their choice, many frequencies were in existence and 60-cycle power was not the standard as it is today." (10)

Since then, however much of the world had adopted 60-cycle current as the standard leaving the Canal Zone as a unique user of 25-cycle current. Manufacturers had virtually stopped making all sorts of electrical equipment for 25-cycle service and the procurement of parts for the maintenance of equipment in the Canal operation was getting more difficult and expensive. This was the time that the old towing locomotives, in operation since 1914 required replacement and a decision had to be made as to the type of electric motors that would be used.







(L-R)The generators at the Gatun (CZI) and Madden (UNK) hydroelectric plants had to be rewired or replaced during the conversion to 60 cycles. The conversion to 60 cycles was made during the administration of Governor John S. Seybold, 1952-56. (PCC)

The subject of changing had come up several times before the 1950s, but by then, it was becoming imperative that the change take place. Governor John S. Seybold authorized the project during his tenure (1952-56) and by 1958 there were 18 major contractors involved in the work. The Atlantic side was done first with major work performed on the generators at the Gatun hydroelectric plant. On the Pacific side, later, the same type of work had to be done at the plant at Madden Dam hydroelectric plant. For example, the 25 HP electric motors operating the gates had to be replaced by 40 HP motors and special gearing. The new locks towing locomotives were ordered with 60-cycle motors at great savings.

With all the changes to the electrical industrial machinery used in the operation and support of the Canal, the changes to the household appliances had to be addressed. All electrical appliances owned by the employees living in the Canal Zone were converted, free of charge, by the Panama Canal Company. In cases where the appliances were too old to warrant the expense of conversion, adjustments were made in the purchase of replacements.

The project, costing more than \$10 million was completed around the end of 1958.

Other Changes

Other changes that took place during the 1950s (some which may have had their beginnings in 1948) included:

The adoption of a five-day work week; pay rates for local-rate employees were revised; the terms "Gold" and "Silver" were officially discarded; Jr. ROTC Programs were established at Balboa and Cristobal high schools; a Junior College was opened at La Boca; a Draft Board was established; cash replaced the long-used coupon books at all U.S.-rate Commissaries; the Canal Zone Retirement Act was merged with the Civil Service Retirement Act; and THE PANAMA CANAL REVIEW began publishing on May 5, 1950.

CONCLUSION

In my opinion, from the little I know about the Panama Canal, I believe that the decade of 1950-59 was the most tumultuous, not counting the construction years and the turn over to the Republic of Panama. In 1964, the U.S. Rate workers in the Canal experienced another change that affected their income. On October 10, 1964, a new regulation, 29 F.R. 14024, changed the 25% tropical differential to 15%. It also excluded from the differential married women whose husbands reside in the Canal Zone or the Republic of Panama and children of such residents who were minors or who did not maintain separate households. But between 1959 and 1979, when the Panama Canal Commission came into being, there were no major changes taking place in such numbers as they did during the decade of the 1950s.

Luis R. Celerier

Longview, Texas Rev. August 14, 2014

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PHOTO CREDITS

CZI Canal Zone Images, William McLaughlin, http://www.czimages.com

PCC The Panama Canal Company

CM Canal Museum, http://www.canalmuseum.com

UNK Unknown. I cannot recall where I found the photo a while back.

LRC Luis R. Celerier photo albums.

NOTES

- * Alfred Graham graduated from Balboa High School in 1951 and joined the U.S. Air Force serving 4 years. He worked the next 28 years for the Panama Canal retiring as Electrician General Foreman of the Pedro Miguel Locks in 1984. He was also active with the Union serving in different positions to include President of IBEW Local 397 and was appointed as Labor Adviser to the U.S.-Panama Treaty Team. Graham was assigned for a short time early in his career to the Palo Seco Leprosarium to rewire some buildings.
- ** Congressional Acts shown as (33 Stat. 424) mean "Volume 33 of U.S. Statutes-at-Large, Page 424".
- *** Jack Morton graduated from Balboa High School in 1951, served in the military and graduated from college under the G.I. Bill. He returned to the Canal Zone in 1961 as an accountant and worked with computer programming and in the Executive Planning Staff and was involved in the Treaty planning. He and his wife Jo Ann live in McKinney, Texas.

ACKNOLEDGEMENTS

I wish to give special thanks to William P. McLaughlin for graciously allowing me to use so many of his photos in this and other articles I have written. His **Canal Zone Images** website is a treasure of photographs, most of which are accompanied with complete descriptions and other information. Bill graduated from BHS in 1970 and remained in the CZ working for the Schools Division and as Recreation Branch Manager for MWR. He began collecting Canal artifacts and photos in 1976 and continued to do so after his retirement in 1996. He now maintains a very informative website, which includes the photo album where I located many of the photos in this article.

http://www.czimages.com