

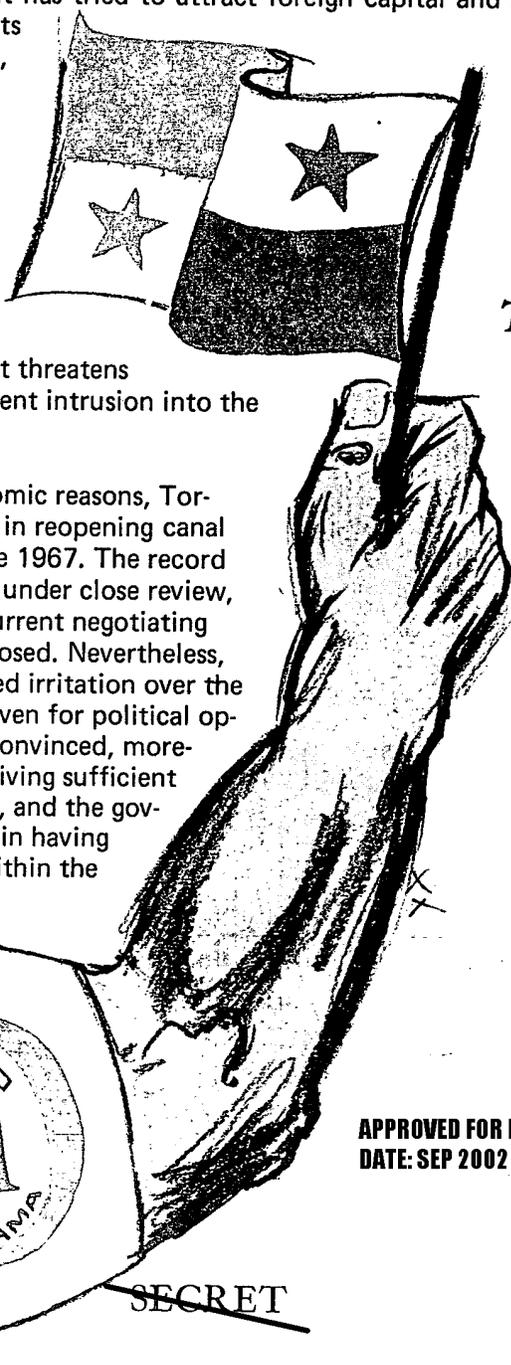
~~SECRET~~

(b)(1)  
(b)(3)

*OP PANAMA C*  
*any*

After twenty months in power, General Omar Torrijos' Provisional Junta Government is beginning to bring its policy goals into focus. Torrijos apparently knows the direction in which he wants to go, but he has not yet mapped out the route or found a way to attain his contradictory objectives. Desiring to make fundamental changes in Panamanian politics, the government has dissolved all political parties and is determined to prevent a return of the traditional oligarchy-dominated political system. Although the government had promised elections in 1970, it has made no plans as yet and shows no inclination to relinquish power within the foreseeable future.

The regime has also demonstrated its concern for economic development and economic reform. It has attempted to a far greater extent than past governments to assist the poor, the middle class, and the labor unions. At the same time it has tried to attract foreign capital and to stimulate domestic private investment. To this end, despite its sometimes revolutionary rhetoric, the government has moved cautiously and has avoided a frontal attack on the economic position of the oligarchy. A basic distrust between local business community and the government remains, nevertheless. The unwillingness of the private sector to raise its level of investment is a serious irritant—one that threatens to bring about increased government intrusion into the economy.

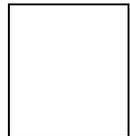


286-75-037  
Box 7  
F-1

*The New Politics:  
Panama Style*

For both political and economic reasons, Torrijos is showing increased interest in reopening canal treaty negotiations, dormant since 1967. The record of previous negotiations has been under close review, but details of the government's current negotiating objectives have not yet been disclosed. Nevertheless, top officials have already expressed irritation over the use of the Canal Zone as a safe haven for political opponents of the regime. They are convinced, moreover, that the country is not receiving sufficient economic benefits from the canal, and the government has indicated its interest in having a number of areas and facilities within the zone returned to Panama.

STAT/CIA?



6/4/76

APPROVED FOR RELEASE  
DATE: SEP 2002

26 June 1970

~~SECRET~~

~~SECRET~~

## *THE END OF AN ERA*

### *The Old System*

From 1903, when Panama gained its independence from Colombia, until the 1968 coup, politics was a game played largely by the oligarchy—a small group of elite families comprising less than two percent of the population. Political parties were temporary and shifting alliances of convenience formed around various political leaders. These personalistic parties generally trumpeted Panamanian nationalism and accepted the notion that the oligarchy's near monopoly of social, economic, and political power should be defended. Political competition between factions of the oligarchy was rooted in the desire to ensure a place at the trough when the political and economic spoils were being distributed.

Until the late 1940s, the National Guard, the country's only military force, had merely supported the oligarchy and rarely entered directly into politics. In 1949, however, it intervened in the wake of fraudulent elections, recounted the ballots, and declared Arnulfo Arias the winner. Two years later the Guard, tired of Arias' authoritarian approach, ousted him. Then, in 1952, the Guard commandant was elected president in a relatively honest election—the first time that a military man had headed the government. Although the Guard had clearly established itself as an independent political force, the oligarchy was able to reassert its traditional control of the political system from 1956 to 1968.

Given the very extensive patronage at the disposal of the chief executive, it was not surprising that presidential elections were hotly contested affairs and often marked by some degree of electoral fraud. The 1968 election, however, was one of the most vicious in Panamanian history. President Robles, sparing no effort to impose a successor, sought and gained the support of the National Guard for his choice. Nevertheless, the opposition candidate, Arnulfo Arias, piled up so large a vote that the Guard, fearing a dishonest

ballot count would lead to violence, shifted its support and allowed Arias to win.

### *Challenge and Response*

A consummate politician who had endeared himself to the masses, Arias excelled as a candidate but was singularly unsuccessful as an officeholder. He had been president twice before, but each time had been kicked out of office. Approaching his third term and upset by the blatantly political role of the Guard, Arias appeared determined to strip the military of its political power. Despite his initial efforts to allay suspicions and placate the military, the Guard placed little confidence in his assurances. Only ten days after his inauguration, Arias again found himself unemployed, and Panama was treated to its first direct military dictatorship.

The October 1968 coup was simply an action by the Guard in defense of its interests. Officers whose positions were threatened ensured their own job security in the most direct way possible. Once in power, however, they found it necessary to justify their disregard for democratic and constitutional procedures. The bald power politics that motivated the coup was quietly swept under the rug, and an elaborate facade of rationalization was quickly constructed.

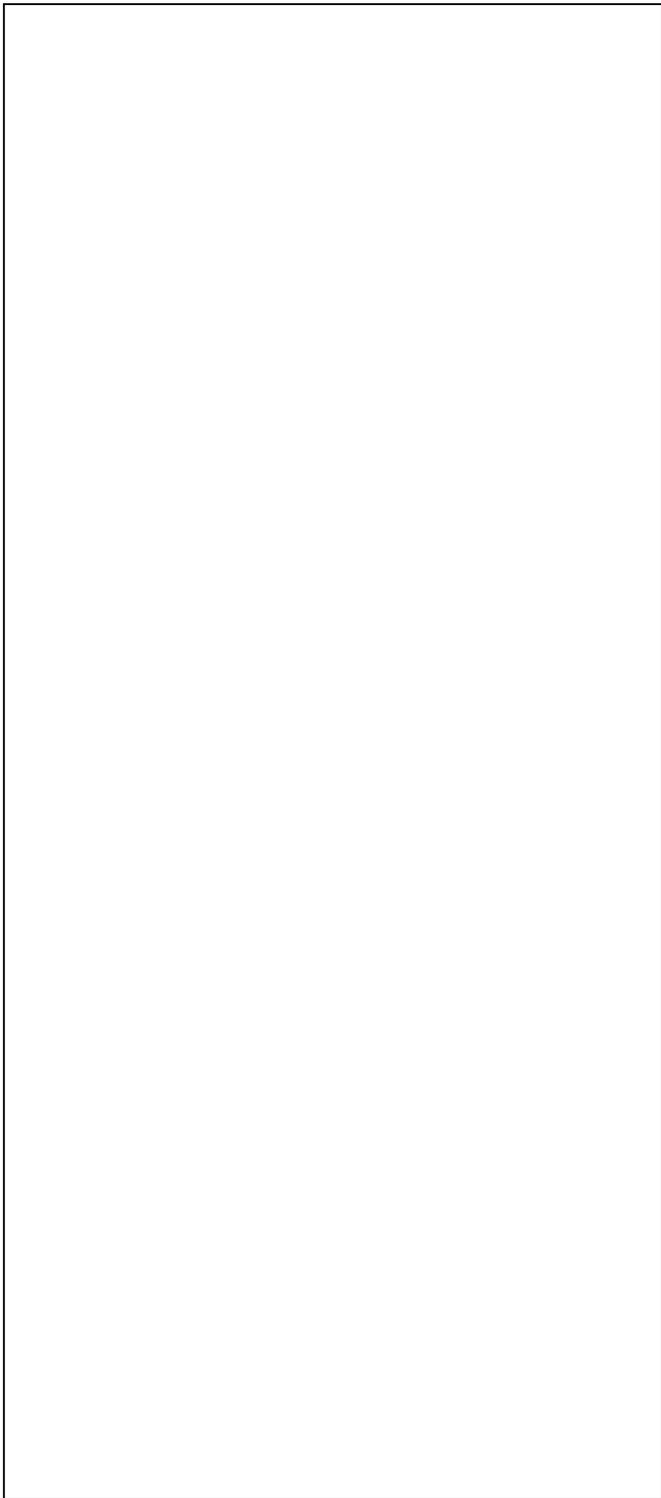
## *THE NEW PANAMA*

### *Rationalization and Reality*

It took the publicists nearly a year to settle on the slogan "The New Panama Movement," but almost from the beginning the coup was labeled a revolution. The political power of the oligarchy was declared at an end, and it was alleged that public policy henceforth would benefit all of society. In language reminiscent of other Latin American military politicians, Panama's new leaders pledged themselves to make honesty and efficiency the guiding principles of government, and promised to put an end to corruption and nepotism.

~~SECRET~~

~~SECRET~~



Despite the rhetoric, the regime's first concern was to neutralize all opposition. Constitutional guarantees were suspended, known leftists were arrested, university autonomy was ignored, and schools were closed. Pro-Arias officers within the Guard were purged, some opposition newspapers and radio stations were taken over, and efforts were organized to root out the small and poorly organized pro-Arias guerrilla movement that had sprung up in the interior. The massive opposition that was expected never materialized, however, and power struggles within the Guard rather than the threat from Arias posed the major danger to stability.

A provisional junta government headed by two figureheads and assisted by a civilian cabinet had been set up, but the locus of power rested with the two principal architects of the coup—colonels Omar Torrijos and Boris Martinez. Although a subordinate, Martinez set about the task of upstaging and undermining Torrijos. He undertook policy initiatives reflecting his strong antagonism toward the oligarchs and politicians and placed his followers in key command positions. Torrijos attempted to avoid a showdown, but by February 1969 Martinez' growing domination of the Guard and the government had reached the point where Torrijos could no longer afford to temporize.

The ouster of Martinez and his principal supporters ended Torrijos' problems for a time, but factionalism within the Guard continued. Matters again came to a head in mid-December when the Deputy Commandant Silvera and Chief of Staff of the Guard Sanjur seized control of the government while Torrijos was in Mexico on a pleasure trip. Their coup was short-lived; Torrijos landed in the interior, rallied his supporters, and returned in triumph to Panama City.

The December coup attempt marked a kind of watershed for Torrijos. Although he had established himself as the dominant political figure after the ouster of Martinez, he apparently had not been comfortable in the role of leader of the

~~SECRET~~

"revolution." The coup attempt was only a matter of internal Guard politics, but quashing it seemed to give his ego and his popularity a boost. His return was one of the most exciting events in recent Panamanian history; his style and verve caught the popular imagination, and he emerged as something of a hero.

If Torrijos felt a new sense of legitimacy, he also felt an almost paranoid distrust of his fellow officers. He had always demanded a very high level of personal loyalty from his subordinates, but now loyalty became a near obsession. Changes were made in the Guard hierarchy and in the government, and two close friends, Demetrio Lakas and Arturo Sucre, were appointed as President and member of the new civilian junta, respectively. Torrijos became more reluctant to delegate authority and more concerned to gather all of the reins of power into his own hands.

#### *Policy Developments*

Given the inexperience of Panama's revolutionary leaders, it was not surprising that a period of policy improvisation should occur or that the regime would be more clear about what it opposed than what it supported. Martinez, an uncompromising opponent of corruption, an avowed enemy of the oligarchy, and a vocal advocate of radical reform, had set the moral and policy tone for the Provisional Government. As a result of his influence, therefore, the early rhetoric of revolution and reform became more than mere cosmetics.

Torrijos found many of Martinez' ideas congenial. He too was fed up with the politicians, distrustful of the oligarchy, and sincerely interested in helping the people. He was not an ideologue, however, and if he heard the same clarion call to reform, he was prepared to march with a slower and more hesitant step.

Although a competent Guard officer and an effective military leader, Torrijos was ill-equipped by temperament and training to lead a govern-

ment. Accustomed to an environment in which problems could be resolved by simply giving orders, Torrijos found it difficult to adjust to the relatively complex process of policy making. Economically unsophisticated and impatient with complicated strategies or involved argumentation, he opted for policies that would yield quick and visible results. Thus the airport, the university, and sundry public buildings were refurbished, garbage collection was improved, and streets were repaired.

Torrijos was initially very conscious of his own deficiencies and prepared to lean upon a number of capable and reform-minded "technicians" who had been brought into the government. Forty-one years of age but politically an adolescent, he displayed an eagerness for new ideas and a willingness and capacity to learn. He also revealed a high degree of impulsiveness. He tended to become enthusiastic about policy suggestions and to act upon them without reflection.

Torrijos became more confident of his ability to run the country after quashing the December 1969 coup. He became less dependent on his official advisers, but remained impulsive. Ready to listen to cronies he had known during tours of duty in Santiago and David, he was not averse to turning their uninformed and off-the-cuff advice into policy directives. To his credit, however, he was not wedded to his mistakes. If a decision proved erroneous or if a policy generated stiff opposition, he could be quite pragmatic and trim his sails to the prevailing winds. Nevertheless, this approach tended to give government policy a ragged, uneven quality.

Uncomfortable with people who are more educated or more sophisticated than he, and little interested in pomp and ceremony, Torrijos likes to rub elbows with the people and to get a personal feel for what is going on. Concerned also with building popular support for himself and his government, he has adopted what might be called the "Santa Claus approach" to development problems. He will visit a village, for example, find out

what is troubling the people, and do something about it. If a roof leaks or a school needs repair, it is noted and the job is done. If a young girl needs money for a dress, Torrijos fishes in his pocket and leaps to the rescue. If a local official has been arbitrary, Torrijos listens to the complaint and rights the wrong.

The fundamental problems are not being touched, of course, and little is really being accomplished. The villagers, however, can point to something concrete. They can see that the government cares about them and they will remember Torrijos. But this too is policy on the run, improvisation rather than planning.

#### *Domestic Policy Goals*

Although Torrijos' personal style has helped to give government policy an impressionistic flavor with false starts, shifts in emphasis, and grandiose announcements accompanied by little or no action, it is also true that he has had to confront very difficult problems and accommodate almost irreconcilable interests. His most difficult problem is to maintain business confidence while building a revolutionary image.

From the beginning, the regime had made a whipping boy of the oligarchy, blaming it for all of Panama's ills. Torrijos separated politics from economics, however, and made no move to interfere seriously with the economic position of the oligarchy. Apparently expecting business as usual despite his antioligarchy pronouncements, he was vexed by the negative reaction of the business community and dismayed that domestic private investment declined.

The oligarchy had initially believed that the military interlude would be brief and that, with only a minor change of cast, the show would go on as before. Martinez quickly demonstrated, however, that he would not operate in the corrupt albeit time-honored way. He could not be bought and he would not play ball. Business leaders, although relieved when he was ousted, con-



**NATIONAL GUARD DISTRIBUTING SHOES TO CHILDREN**

tinued to withhold cooperation in the hope of gaining a larger role in government. The regime's one unalterable article of faith, however, was that the traditional oligarchy-dominated system had to be destroyed. As time went on, it became clear to the business community that Torrijos had no intention of relinquishing power, that general elections would not be held soon, and that whatever elections were held would be carefully controlled.

If the oligarchy was to be frozen out of politics and if power was to rest on more than the guns of the Guard, it was obvious that an alternative political system had to be devised. This, of course, was a task that would tax the resources of even the most skilled politicians, and it was complicated even more by the fact that neither Torrijos nor his advisers had a very clear conception of what they wanted to do.

Three points became evident, however. In order for power to be institutionalized, an electoral vehicle had to be created. Secondly, if the power of the elite was to be broken, a mass or popular base of support had to be developed. Finally, if mass support was essential, organized

~~SECRET~~

labor could form the nucleus from which other mass organizations might subsequently be fashioned.

Drawing upon the Mexican model, the government unveiled the New Panama Movement on the first anniversary of the October coup. This was to be a broadly based political organization, organized on a sector basis and including peasant, worker, student, and professional groups. Taking a page from Peron, Torrijos the following month announced plans to establish a government-controlled national labor organization in which the participation of existing unions would be compulsory.

For a number of reasons, the government did not go very far with either scheme. It did not organize the New Panama Movement, probably because more pressing matters arose and because Torrijos could not find an individual he considered capable and loyal enough to be entrusted with such an imposing responsibility. The government also backed away from the idea of an all-encompassing government union in the face of vigorous opposition from businessmen and from union leaders who felt that their positions would be threatened.

Despite the government's tactical retreat, these and other pronouncements frightened both the oligarchy and the business community. Certain elements within CONEP, the Panamanian federation of private sector groups, reportedly began to plot against the government, to investigate the possibility of collaboration with the exiled Arias, and to see whether any Guard officers could be persuaded to oust Torrijos. Although most businessmen were unwilling to stick their necks out so long as Torrijos showed some degree of restraint, they resorted to a kind of passive resistance—a slowing of their investment in the economy.

If businessmen were suspicious of the government, the reverse was equally true. CONEP's condemnation of one-man rule—an obvious refer-

ence to Torrijos—only hours after colonels Sanjur and Silvera attempted to seize power, reinforced Torrijos' distrust of the oligarchy. Still, Torrijos preferred to avoid an open break with the business community, and the newly appointed president, Demetrio Lakas, took on as his major task the establishment of a dialogue between government and business.



PRESIDENT LAKAS

The reason for Torrijos' forbearance was his continued desire to improve the climate for investment. In mid-1969 the government had been forced to institute an expensive public works program in order to counter a slowdown in the rate of private domestic investment. The regime had believed that the business community would soon accept the new political situation and the economic picture would improve, but the growth of domestic private investment remained at little more than half the 1967 level. Government programs were not scaled down, and the budget deficit increased substantially.

Considering the gulf that had already developed, Lakas' efforts to build bridges to the business community should not have been expected to bear fruit overnight. Torrijos, however, was neither prepared for a long courtship nor willing to give up his efforts to gain popular support. Prolabor statements continued, taxes were increased, and workmen's compensation insurance, previously handled by private companies, was taken over by the government's Social Security Fund.

These last two measures in particular deepened the alienation of the business community. Even though the government toned down the tax measure after Lakas interceded with Torrijos on

~~SECRET~~

behalf of the business interests, it remained a bitter pill. Reaction against the take-over of workmen's compensation was even stronger. The insurance companies attacked the decree as tantamount to expropriation, and other businessmen became concerned that the government might move against them next.

Although Torrijos was prepared to advertise these measures as evidence of his commitment to reform, his primary motivation apparently was not reform and certainly not the alienation of the business community. Probably his main concern was for additional revenue. Because the government taps the Social Security Fund at will, any additional monies put into it would become immediately available for government programs. The tax measure was more obvious—it promised to yield more than \$10 million in 1970.

With revenue still insufficient to support the politically and economically necessary public works program, the government has had to rely on foreign borrowing to cover budget deficits and upon foreign investment to help keep the economy healthy. Torrijos, therefore, has seemed even more concerned about Panama's standing with the international financial community than about his relations with the local businessmen. This may help to explain the recent removal from the cabi-

net of two prominent leftists, Minister of the Presidency Vasquez and Minister of Labor Escobar. Although Lakas had long sought their ouster, complaining that they were undercutting his efforts to improve relations with the private sector, Torrijos apparently became convinced only after Lakas stressed that the presence of the two men hurt the country's image abroad and frightened off foreign lenders and investors.

These cabinet changes do not appear to foreshadow a shift to the right, however. Both men were appointed to judicial posts. Escobar became president of the Electoral Tribunal and Vasquez was given a seat on the Supreme Court, and there is no evidence that Torrijos has lost confidence in either man or that he will not make use of them in the future. More importantly, Torrijos' enmity toward the business community has not diminished. He is convinced that it is trying to sabotage his efforts to keep the economy moving, and he has reportedly given up hope of winning it over.

Constrained to revalidate his reformist credentials and interested in cutting the oligarchy down a peg or two, Torrijos may be moving to set up cooperatives that would compete directly with oligarchy-owned enterprises. The government has already announced plans to build a \$12-million sugar mill in Veraguas to give cane growers an alternative outlet to the two existing mills controlled by the oligarchy even though such a sugar mill cannot be justified on economic grounds. The regime reportedly is also studying the possibility of building a cement plant and organizing a government-controlled dairy cooperative.

This approach would offer significant advantages. It can help win popular support even if simply presented as part of a development program designed to increase production capacity, improve skills, and provide jobs. It also gives the government a convenient way to put pressure on the business community either to increase the rate of investment or to adhere to a particular policy. Reports relative to this latter possibility indicate that the government might enter into



**PUBLIC WORKS PROJECT**



**TORRIJOS DRUMMING UP POPULAR SUPPORT**

direct competition with local bottled-gas companies if these firms do not lower their prices.

#### *RELATIONS WITH THE US*

Over the past few months US efforts to promote a closer working relationship with the Panamanian Government have helped to dissipate some of the coolness and suspicion that had developed since the coup in October 1968. The government, realizing its need to get along with the US, has evinced an interest in better relations. Described as having a "love-hate" attitude toward the US, Torrijos is deeply nationalistic and, although desirous of a mature and equal relationship with the US, is prone to strong and emotional outbursts when thwarted.

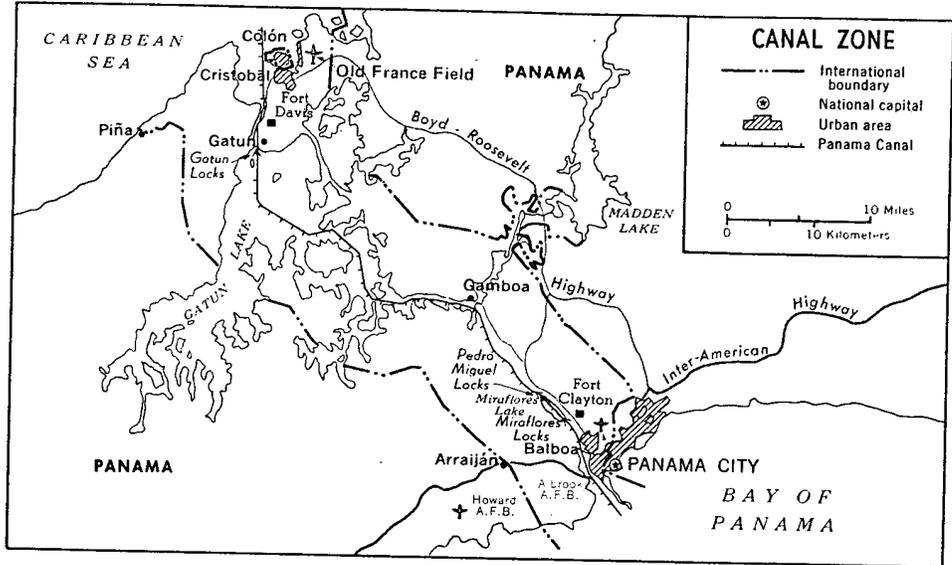
Torrijos deeply resented the failure of the US to embrace his "reformist" regime immediately after he had overthrown Arias, the constitutionally elected president, and for the first year relations were "correct" rather than "cordial." After Torrijos' visit to the US in October 1969 and a change in the US policy posture, relations began to improve. They suffered a serious setback, however, immediately after the December coup attempt. Allegations by some of his subordinates within the Guard that the US supported and was involved in the ouster attempt created an

atmosphere of distrust that has colored relations between the US and Torrijos ever since.

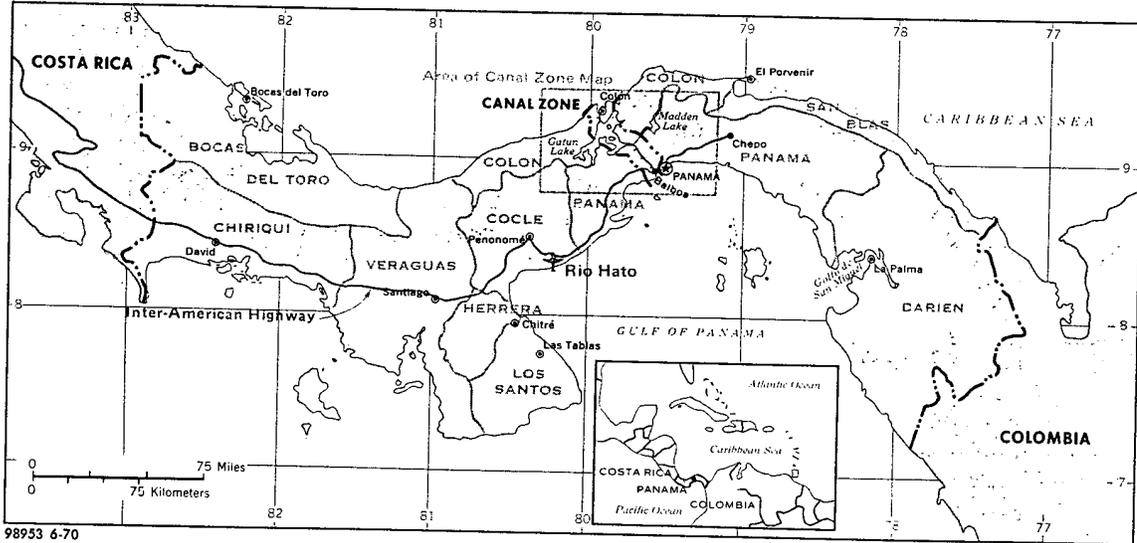
Relations again became strained in February when Hildebrando Nicosia, a top aide of deposed President Arias, returned to Panama in an effort to organize a coup against the government. Unsuccessful, he sought asylum in the Canal Zone. Nicosia's claims during his brief stay in Panama that he enjoyed US backing rekindled Torrijos' suspicions about US intentions, and the subsequent refusal of the US to turn the escapee over immediately to Panamanian officials resulted for a time in reduced cooperation between National Guard personnel and US intelligence officials and Canal Zone police.

In early June the issue of political asylum again came to the fore when the three colonels who led the abortive December coup escaped from a Panamanian jail and fled into the Zone. Although there is some evidence that Torrijos is relieved to be rid of the officers, he is still frustrated by the continued ability of his opponents to obtain the protection afforded by the Zone. The government has formally demanded the return of the colonels and has strenuously denied the right of Canal Zone officials to grant political asylum to Panamanian nationals.

Despite these latest complications, the government is apparently eager to avoid jeopardizing relations with the US, presumably because of its interest in resuming the canal treaty negotiations, suspended since 1967. In an obvious effort to improve relations, the government appointed a new ambassador to the US in May after the post had remained vacant for five months. In early June, President Lakas emphasized to the US ambassador the government's interest in creating an atmosphere conducive to mutual cooperation. General Torrijos has also reaffirmed his willingness to extend for another year the agreement permitting use of Rio Hato, the major US military installation outside the Canal Zone. The existing agreement expires in late August, and although it



**PANAMA**



will probably be renewed without prior concessions, the US may be expected to reciprocate by agreeing to a number of Panamanian requests.

The full catalogue of requirements probably has not been formulated and Panamanian thinking on treaty negotiations is still subject to change, but preliminary information suggests that Torrijos wants to embark on entirely new negotiations rather than to recommence talks on the three 1967 draft treaties dealing with the present lock canal, a possible sea-level canal, and defense arrangements. The Panamanians apparently ant to retain the concessions embodied in these drafts, such as sharing toll revenues and gaining a reduction in the size of the Canal Zone, but they will want even more generous terms in any new treaty.

In January, Torrijos and Lakas told the US ambassador that all commercial activities should be turned over to Panama and that they wanted the Zone to be more closely integrated economically with the rest of the country. Although they recognized US requirements for controlling the operation and defense of the canal, they stressed that Panama must be treated as a full and equal partner. Torrijos noted also that the present situation giving the US rights in perpetuity was unacceptable. He thought, however, that a treaty that had no terminal date would be politically manageable if it provided for periodic consultation and adjustment, and also for a complete review in 20 to 30 years.

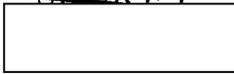
More recently, Torrijos told his canal advisers that he would push for a considerable increase in US economic and technical assistance and also would seek considerable equipment of all types for the National Guard. In view of the current problems, Panama probably will also demand that a clarification of the right of asylum be included. The Panamanians have paid rather close attention to US negotiations with Spain and can be expected to insist upon an annual payment for base rights in Panama.

The Panamanians have also expressed an interest in obtaining concessions in advance of treaty negotiations. They have pressed in particular the return of the Balboa ship repair facilities and Old France Field. The lands and facilities of the France Field area would be used to enlarge the Colon Free Zone, and the Panamanian Planning Director has stated publicly that if this were done annual earnings from the Free Zone would double within the next five years. The Panamanians also want a substantial increase in the sugar quota and additional US assistance for road-building. Obtaining these concessions is likely to be quite important to Torrijos because they would increase his prestige and demonstrate his ability to deal effectively with the US. They would also provide a much-needed financial cushion. US failure to accede to such requests could prompt a hard-line response, particularly if the Rio Hato agreement had been renewed without obtaining compensating concessions. The government would probably feel swindled and might begin to arouse public sentiment against the US.

#### *PROSPECTS*

Although Torrijos' tenure cannot be assured, he appears to have a firm grasp on the levers of power. Despite some reports of coup plotting, strong or united opposition to the General has not developed within the Guard. As long as he does not absent himself from the country for an extended period of time and his subordinates continue to bicker among themselves, Torrijos stands a good chance of being able to move against his opponents before they can move against him. At present, the threat of assassination is greater than the danger of a coup.

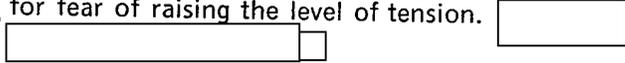
The government's most immediate problem has been to scare up enough money to refinance the \$22 million in short-term funds borrowed last year and to find additional credits to cover current expenditures. A \$10-million loan was secured in March, and prospects for obtaining an additional \$30 million now appear to be good.



Although the government will proceed cautiously, once the liquidity problem subsides, more sustained efforts to undermine the economic power of the oligarchy could develop. In addition, business concern about the high rate of government spending and the possibility of additional taxes is likely to have a continuing dampening effect on domestic private investment. Thus, relations with the business community may get worse before they get better.

Torrijos will probably push ahead in areas such as public administration, community development, and land reform. As before, however, emphasis will be on highly visible projects. The government is unlikely to revive plans for a compulsory government-controlled labor federation despite continuing efforts to build labor support. The regime reportedly has told a number of independent banana growers in Chiriqui and Bocas del Toro provinces that they would be arrested if they did not allow their workers to be organized into a union, and similar pressure may be exerted in the future on behalf of union organizers.

Restoration of normal political activity is not yet in sight. The government has publicly committed itself to hold elections this year, presumably for a constituent assembly that would amend the constitution and pave the way for general elections. The lack of any preparations to date suggests slippage in the electoral timetable. Although both the procedures and results of any election would be carefully controlled, Torrijos would have to balance the possible advantages of legitimizing the Provisional Junta Government against the danger of disorders. A final decision may depend on what happens over the next couple of months. Thus far, Torrijos has little to show for his 20 months in power. If he can come up with some dramatic accomplishment—perhaps important concessions from the US—he may decide to push for elections and may re-examine the possibility of organizing the New Panama Movement. If there are setbacks, however, or if problems develop within the Guard, Torrijos will not want to permit any increase in political activity for fear of raising the level of tension.



\* \* \*