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STUDIES IN PUBLIC ADMINISTRATION

Volume I

**GOVERNMENT-OPERATED
ENTERPRISES IN THE PANAMA
CANAL ZONE**

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GOVERNMENT-OPERATED ENTERPRISES IN THE PANAMA CANAL ZONE

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The University of Chicago*

WITH AN INTRODUCTION BY

LOUIS BROWNLOW

Director, Public Administration Clearing House



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TO MY WIFE

PREFACE

THE American public has been informed from time to time of the construction, sanitation, and defense problems which have accompanied the construction and maintenance of the Panama Canal, but very little is popularly known about the government-owned corporation which has been active on the Isthmus for thirty years, about the ramified business services which the government operates, and about community life in the Canal Zone. To present this side of the picture is the purpose of the present study.

The writer's administrative survey, which led to the writing of this monograph, was conducted at the invitation of the Secretary of War. In his letter of October 28, 1933, addressed to Mr. Louis Brownlow, Director of Public Administration Clearing House, the Secretary of War said in part:

I should be most happy to have your organization undertake this study, so as to give the War Department the benefit of a fresh, outside viewpoint. I have no reason to think that the present administration of the Panama Canal is not highly efficient and I am frank to say that I shall be surprised if you find much to criticize. However, all successful corporations insist upon an annual independent audit and it is in this spirit that I invite you to make the foregoing study, if you care to do so.

Incidentally, this study might be of especial interest in another direction. I believe that the Panama Railroad Company is one of the oldest examples of conducting a Government function by means of a corporation. This method of carrying on public business is becoming very common. Indeed, hardly a day passes that some new Government corporation is not organized in Washington to conduct an activity in connection with the Administration's recovery program. In view of the fact that the Panama Railroad Company is about the oldest corporation of this type, it has been suggested that a comprehensive study of its organization and methods of operation would not only be timely, but might be helpful to some of the newer Government-owned corporations which are just being launched.

Mr. Brownlow requested the University of Chicago to sponsor the research, and this was done by drawing upon the Public

Administration Fund and by releasing the writer from university duties for one academic quarter.

Information concerning administrative organization, historical development, the shipping line, and purchasing operations could be, and was, obtained in Washington and New York. However, most of the data were acquired as the result of a three months' trip to the Canal Zone.

The only published materials relating to the present investigation were those of general historical and social interest. The annual reports of the Panama Railroad Company, the Governor's annual reports, the minutes of the Board of Directors of the Panama Railroad Company, the very complete files of the Canal Zone administration on the Isthmus, and special studies which have been conducted by staff members all proved very useful. The author wishes to pay special acknowledgment to recent studies which have been conducted by a staff of engineers under the direction of the Engineer of Maintenance. These surveys relate to railway management, commissary operations, depreciation policies, and hotel administration; and although material was extracted from them, specific acknowledgment could not be given in all cases.

Most of the information contained in this study was acquired from interviews and personal observations. The author did not confine his inquiries to officials and employees, but attempted to secure criticisms and suggestions from as wide a variety of sources as possible. This was done with the knowledge and approval of the Canal Zone officials, who were afterward very helpful in verifying and checking information received.

This study is one in public administration, as broadly and humanly interpreted. It draws upon business administration, economics, history, international relations, and sociology—again illustrating the close relationship between the social sciences in attacking certain complex problems.

The present research also throws light on the state as entrepreneur. In the Canal Zone the United States government

owns and operates a greater number and variety of economic services than it does in any other place. That these enterprises are not insignificant is attested by the fact that the government has invested almost six hundred million dollars in the Isthmian development. What success has the government had as owner and operator of steamships, railway trains, hotels, department stores, manufacturing plants, recreation centers, and other activities which are usually privately controlled? It is hoped that this study may add to the knowledge required in dealing with larger social problems, particularly the choice between regulation and direct operation as the future policy for national development.

The experience of the government-owned Panama Railroad Company may be of some practical value in guiding the government's policy relative to existing or prospective government-owned corporations. If, for example, the country's railroad system were placed under a public corporation, as official quarters have suggested, all of the available knowledge concerning government-owned corporations would be greatly needed. It was largely with these considerations in mind that chapter ix, entitled "Principles Underlying Government-owned Corporations," was written.

Finally, there is developing what may be called public commercial administration—the management of government-operated economic services. It is hoped that this study may make some contribution to that body of knowledge and experience.

Not all of the business services in the Canal Zone have been analyzed in detail. The operation of the canal itself was not considered; nor were so-called business units, such as the Mechanical Division and the Electrical Division—as important as ship construction and repair, electrical power, and telephone service unquestionably are.

This study is chiefly concerned with the principal enterprises owned by the Panama Railroad Company—the railroad line, the steamship service, and the commercial and manufac-

turing units. All of the services have been dealt with in a sense, however, because the administrative set-up and functioning of the entire Canal-Railroad establishment has been criticized from the standpoints of public administration and business management. The overhead organization and control is of greater concern, for the present purpose, than the individual enterprises. It will be recognized, though, that the records of the individual enterprises are the gauge of the success of the organization as a whole.

For assistance, in conducting the study and preparing the manuscript the author is primarily indebted to Mr. Lewis B. Sims, Research Assistant in the Department of Political Science, the University of Chicago. Mr. Sims made the trip to Panama and afterward labored over the manuscript. He had a hand in every part of the research except the actual writing and the interviewing.

The officials in Washington, in New York, and in the Canal Zone could not have been more accommodating than they were in supplying information and providing entrees and assistance. The author is particularly grateful to Governor Julian L. Schley; Lieutenant Colonel Clarence S. Ridley, Engineer of Maintenance; and Major William R. Gruber, Executive Assistant, War Department, all of whom read the manuscript and made helpful criticisms and comments. Thanks are also due to Mr. T. H. Rossbottom, Vice-President of the Panama Railroad Company, and to his assistant, Mr. W. R. Pfizer, whose courtesy will long be remembered. Acknowledgment is due to many persons, but the author is particularly anxious to mention the names of the following: A. L. Flint, Chief of Office, The Panama Canal, Washington, D.C.; R. B. Walker, General Manager, Panama Railroad Company; Elwyn Greene, Auditor, The Panama Canal; Major William Covell, Assistant Engineer of Maintenance; W. J. Sheridan, Commissary Purchasing Agent, Panama Railroad Company; A. W. Goulet, General Manager, Commissary Division; H. A. McConaughy, President, Panama Metal Trades Council; John H. Smith,

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Chief Clerk; Seymour Paul, Chief Statistician; Roy R. Watson, Chief Quartermaster; E. A. Erbe, Assistant Statistician; J. H. K. Humphrey, Assistant Chief Quartermaster; C. W. Lee, Assistant to General Manager and Commercial Agent, Panama Railroad Company; E. D. Mason, Chief Clerk, Panama Railroad Company; L. A. Poltrino, Secretary to the Governor; W. H. Kromer, Assistant Auditor; Nelson Rounsevell, Editor, the *Panama-American*; and Mrs. Thomas Reynolds, President, Canal Zone Women's League.

For assistance in preparing the manuscript the author is also indebted to Mr. Elton D. Woolpert, Research Assistant, Department of Political Science, and to Miss Jean Schneider, Secretary to the Chairman of the Social Science Research Committee, the University of Chicago. The general subject matter of this study was covered in the form of six public lectures which were given under the auspices of the University of Chicago between April 24 and May 29, 1934.

MARSHALL E. DIMOCK

CHICAGO, ILLINOIS
May, 1934

INTRODUCTION

THAT governments do operate enterprises that are in essential respects of the same character as those operated by private persons is a fact that sometimes attracts less public attention than it deserves. So much is said and written about enterprises that should be taken over by government, and so much about why government should not invade the fields held sacred for private operation, that it is worth while, once and again, to inquire into some of the things that are being done in this general field.

If one does so inquire, one probably will be impressed by the circumstance that both governments and private persons use certain tools and certain methods to advance the fortunes of these business enterprises, and that the same tools and the same methods are often employed, whether the ownership and direction is governmental or private.

One such tool is that of the corporation. Private business men, with, of course, the aid of governments which alone may create corporations, have used it most widely and have developed, with its help, modern business. Governments are coming to use it also.

In the Panama Canal our own United States government uses the corporation through the Panama Railroad Company—the stock of which it owns—for some purposes while for others the direct operation through governmental agencies is employed.

In this book Dr. Dimock has analyzed the operations carried on under both plans, has weighed their advantages and disadvantages, and has not hesitated to pronounce judgments and to make recommendations as to what should be done further to improve an already excellent administration of the business enterprises carried on by this great government-owned and government-operated public utility.

Great, and due, meed of praise has been freely given by all the world to the feats of engineering and sanitary science which cut the Isthmus and opened a mid-continental waterway from the Atlantic to the Pacific. Even the political and diplomatic devices which were used to get the chance to build the canal have been defended, or, if not defended, condoned, in the light of the results obtained and the money settlements made. The financial success of the canal likewise has justified most of its promoters.

Just now, when governments are expanding their activities in business enterprises, sometimes as partners, sometimes as friendly bankers, sometimes as owners and operators, it is useful to review what the United States government has done in Panama. It means not only to review what it has done with the canal itself, but also, and quite literally, with ships and shoes and sealing wax. It operates a railroad and a shipping line; hotels and a cemetery; department stores and butcher shops; schools, libraries, and playgrounds; laundries and ice plants; dairies and truck gardens.

In many of these things the corporate device has materially advantaged the success that has been obtained, so Dr. Dimock finds, and he recommends that this useful implement be employed for the whole vast congeries of enterprises.

Not only will the student of government-owned corporations be interested in what is here recorded and analyzed in the operation of the Panama Railroad Company, but he will also find food for thought and the basis for further researches into the whole general problem of the corporate device in governmental activities.

The statesman, too, will find here guidance with respect to matters of policy, especially in a time when the United States government and many state and local governments are turning to the government-owned corporation as a means for control and administration of public commercial undertakings.

LOUIS BROWNLOW

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