

Railroads and sovereignty in Colombia: the case of Panama Railroad Company

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1. Introduction

The outbreak of the Industrial Revolution in the late eighteenth and early nineteenth centuries brought about profound changes in global economic and political dynamics. The American continent was in a particular historical juncture since the nation-state became, for the first time, the dominant form of political organization². Under the new world trade conditions, Latin American economies were generally based on extractive activities, on the production of raw materials and on agriculture. These countries were economically dependent on other states: on Spain, first of all and later on Britain, after independence. For Colombia, this scheme allowed to invigorate regional economies as they were able to take advantage of favorable market conditions for exports in the international system. This, in spite of the fact that the country was weakly linked to world trade, which placed it, according to some authors in the category of "secondary peripheral region."

As a secondary peripheral economy, however, Colombian exports were not present in the areas of influence of the major world economies. This was reflected in a continued lack of a sustained impulse on an export model, a situation that resulted in an additional circumstance: that only a few regions in the country exported goods that were tied to international trade. The rest of the country was left with weak or nonexistent relationships with the world. This resulted in a slow modernization of the transportation system in Colombia, in spite of some early attempts to apply new technologies of steam navigation on the Magdalena River. The Railroad fever only arrived in the country in the 1870s and steam navigation was only consolidated in the second half of the nineteenth century.

However, it is precisely in the mid-nineteenth century when one of the most successful foreign investment experiences takes place in Latin America and particularly in Colombia, at least from a foreign investors' perspective: the construction and operation of the Panama Railroad Co. This railway line was built in record time, only five years, when compared to other railroads built in Colombia in the nineteenth century. Unlike other railroads in the country, this one had no intention of connecting production hubs of primary goods with international trade routes. It was designed and implemented as a transit route between the Atlantic and Pacific oceans.

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² Between 1776 and 1830, virtually all American territories had made broken ties with the colonial world and had established a nation-state model. Except for brief periods in Mexico and Brazil, none of the newly independent countries followed a monarchical or feudal model.

As discussed below, the Panama Railroad Co., was one of the most profitable companies of its time and clearly reflected the political and economic interests of the United States, not only in regards to Latin America, but also in relation to its strongest competitors in the region: France, England and Spain. The company became one of the most important transportation monopolies of its time and it was one of the most appreciated tax revenues for the Colombian government.

This paper considers the centers of population and social and economic dynamics, and the success of these development axis made from this railway project, cannot exist without actual control of a territory. This domain must be understood from a dual perspective: it is a material support to the social group, as it provides the resources necessary for reproduction, while social production is derived from human activity which appropriates and transforms the space that underlies. For example, redefining modern cosmopolitan Panama through the interoceanic connection created not only an economic growth dynamic, but also the processes of cultural appropriation of the new space.

In this sense, the territory is defined from the practices and social groups who appropriated, transformed or involved through various activities associated in this case rail infrastructure projects. This relationship is not unidirectional—from human groups to the territory—but it raises a series of directional with one another: as when people live there surge new configurations and reorganizations of space as a product of social relations, but in turn, the space affects, transforms and limits the possibilities of those who inhabit it.

Thus, social groups developed a form of territoriality that dominate the space, or seek to dominate. This can occur through colonization of new areas of agricultural or economic development, the demarcation of new spaces, the stabilization of territories, consolidation, protection and exploitation of space. These actions establish relations systems, rhythms and codes that give the space a sense of territoriality, both for the society that inhabits it and those who are foreign to it.

The borders become a transition zone, in any case in an easily demarcable line, which are in tension two or more forms of territoriality. They are, a gathering of different perceptions of reality, in which cultural exchanges can occur, not always peaceful, where the perceptions of those realities may be changed. Moreover, these encounters are far from producing processes of assimilation, fusion or hybridization leading to co-existences in harmony, but produce explosive encounters and conflict, which can be expressed in different areas, such as the symbolic, cultural, material, economic and political among others. This is the result of tensions between the dominant and hegemonic models of resistance or the incursions of new orders that can be heard clearly in the development of The Panama Railroad Co³.

³ Echavarría, María Clara, y Análida Rincón. *Ciudad de territorialidades: polémicas de Medellín*. Medellín: Universidad Nacional, Colciencias y CEHAP, 2000, pp. 22-23

Analyze how to set effective territorial control involves examining the network of power and domination that underlie the area. That is, identify the positions of different groups, their logic of action or inaction, of exercise of power and, more importantly, understand what mechanisms and how they have used to structure the power relations in space.

The case of the Panama Railroad overcomes the traditional explanations about the secession of Panama from Colombia at 1903, to incorporate the role of foreign investment, negotiations between international companies and the Colombian government as well as elements of domestic and foreign policy that put Colombia in an dreadful scenario after disastrous internal war of the Thousand Days in the middle of unfavorable international situation, in which the United States was an expansionist phase in the Caribbean. At the time, it can identify the strengthening of local elite who managed to adapt and benefit themselves from the processes taking place in early twentieth century.

For this reason, it is necessary to stress the importance of mechanisms such as economic policy as a clear expression of sovereignty and symbolic construction of the State and Nation, in other words, success or failure of economic policy can lead the way will continue or not the process of building a national economy. The study of economic policy, including the railway, can then ask how a company determines the exercise of power and building institutions that allow the State or other groups, the exercise of it.

Unlike other experiences in which transportation routes became articulators of regional or national markets and, perhaps most important, in a tangible way to shape the concept of nation, this did not occur in Colombia. In addition to the late and disrupted rail transportation system, the Panama Railroad Co. became one of the elements that would eventually help to pose a serious challenge on Colombian sovereignty over Panama.

Methodologically, the development of this research was based on documents consulted in the Library of Congress of the United States, that allowed understand important elements of the operation of the Panama Railroad, in particular on the distribution of capital, dividend payments and transport fees. Also, we made use of President Aquileo Parra Archive, in which is able to consult documents on railroads projects that were in operation or under construction during his presidency (1876-1878), unfortunately, there are no documents of this railway in the General Archive of the Nation (Archivo General de la Nacion). Also, we used the main body of the Colombian railways historiography.

To study the company's role in Colombia's economic development and in the economic and political relations of the country, this text has been divided into five parts. The first one will address the birth of the idea of a transcontinental route in Panama, The second part will study the role played by foreign investment in the construction of the railway line; the third chapter will examine the relationship between the U.S. postal system and the Panama Railroad Co. The fourth section takes a look at the role of foreign and local interests in the independence of Panama and their effects on the railroad, as well as on the projected Panama Canal. Finally, we present the conclusions.

2. The idea of a transcontinental route

Railroad construction incorporated some of the most expensive technology imported by Latin American countries. It involved intricate networks of politicians, merchants, land speculators and financiers, local and foreign elites whose objectives did not necessarily coincide. In general, railroad construction involved high levels of public debt for these countries and profits, if any, were diluted over time and went to pay interests. The biggest challenge to make these projects profitable was the charge potential of these economies. Generally speaking, transportation routes were conceived as ways to articulate primary export products to the world market, which offered a very limited return. This usually meant that local investors were strongly linked to international trade in such a way that their investments were made more in terms of integrating supply chains rather than to build general transportation networks⁴.

In addition, the internal size of Latin American markets was generally limited, which restricted the financial and social returns of the more ambitious projects. This produced relatively unconnected transportation networks that were strongly oriented to the international trade of agricultural or mineral products, and the imports of certain manufactured products. However, the Panama Railroad did not follow these criteria and may be considered an unusual case in the construction of railways in Latin America, especially in Colombia. First of all, it was the only railroad to be built with the express purpose of crossing the continent. Secondly, it did not connect any local production facility to the international market⁵, third, the investment was made solely by the foreign capital; finally, it can be said that it was a generally a profitable venture, at least for as long as it was able to maintain the monopoly on intercontinental routes in America.

The enormous difficulties faced by Mexico in the 1840s and U.S territorial expansion to the west, led in rapid succession to the annexation of Texas in 1845, California between 1846 and 1848, and New Mexico and Arizona in 1848. Thus, Mexico lost all its territories north of the Rio Grande and those remaining north of the line between El Paso, Texas and San Diego, California; in this way, the U.S. consolidated the expansion to the west and south in a process that brought new economic opportunities⁶.

The main problem with these annexations, particularly on the West Coast, was the need for communication. The transportation of goods, people and mail was ever more difficult due to the fact that it had to be done on foot or on carts on difficult terrain, often unmapped, in many cases through areas controlled by hostile Indian who resisted this expansion. The journey by sea was not easy either, as it involved a journey of more than 20,000 km south

⁴ Hernán Horna, "Los ferrocarriles latinoamericanos del siglo XIX: el caso Colombia," in *Empresas y empresarios en la historia de Colombia. Siglos XIX-XX* (Bogotá: Editorial Norma y Ediciones Uniandes, 2003), II, 1023.

⁵ Robert S. Platt, "Central American Railways and the Panamerican Route," *Annals of the Association of American Geographers*, 16, no. 1 (1926): 16.

⁶ Thomas Weaver, *Los indios del Gran Suroeste de los Estados Unidos* (España: Editorial Abya Yala, 1992), 153-55.

of the continent through the difficult and dangerous Cape Horn. However, the discovery of gold in California, shortly after its annexation entailed an additional incentive, hard to be disregarded by the federal government and U.S. investors⁷.

As a result of these circumstances, the government of the Nueva Granada signed the Mallarino-Bidlack Treaty in 1843 with the United States, by which Colombia obtained the security of neutrality and sovereignty over Panama in exchange for freedom of transit for U.S. Government agents and American citizens through the canal. The writer Camacho Roldán estimated between 1848 and 1869 the number of annual passengers that crossed the Isthmus rose from an average of 25,000-40,000 to 375,000 travelling south and 225,000 travelling north⁸

One of the highlights of the Bidlack-Mallarino Treaty was the right granted to the U.S. government to transport goods or commodities through the Isthmus for free. This clause was particularly appealing to the United States Postal Service, which required of a more secure and efficient route than the alternative land option in its own territory or the difficult Cape Horn route. These incentives generated a huge interest in the project by three U.S. investors. On December 28, 1848, John Stephens, William Aspinwall and Henry Chauncey signed a deal in Washington with Pedro Alcantara Herrán, on behalf of the government of José Hilario López in order to build a transcontinental railroad. This gave way for the establishment of the Panama Railroad Co., as discussed further on in this document⁹.

The Panama Railroad Co., whose construction began in 1849, received exaggerated privileges by the Colombian government. Some of them were the exclusive rights to build the rail road, the administration of the ports at both ends of the coast, exclusive rights to build a future canal, a major transfer of land to build the line, the ports, warehouses, the right of possession of land on the island of Manzanillo and 150,000 acres¹⁰ in perpetuity in the provinces of Panama and Veraguas¹¹, and an exemption from import duties on all materials needed for the construction. In return, the Colombian government received 5% of mail profits and 3% of net profits in the same proportion of the distribution of dividends paid by the company. In addition, Colombia had the right to redeem the works in the amount of five million dollars after 20 years, four million after 30 years and two million after 40 years¹².

⁷ Peter Sánchez, "¿The end of hegemony? Panama and the United States," *International Journal of World Peace*, 3, no. XIX (2002): 63.

⁸ Gustavo Pérez, *Nos dejó el trení*, 147

⁹ Board of Directors, *Panama Rail-Road Company* (New York: Van Norden & Amerman, 1849), 29-54. Aspinwall was a renowned businessman, Chauncey was a well-known banker and Stephens was a lawyer and amateur explorer. All were based in New York

¹⁰ Some authors argue that the amount of transferred land amounted to 250,000 acres. The use of different forms of measurement units makes it very difficult to determine the real amount of land actually transferred. (In Colombia *fanegada* is a square of 80 meters on each side and a total of 6,400 m². The acre is an English measurement unit, equivalent to 43,560 ft² or 4'046.856 m²).

¹¹ Germán Cavalier, *La política internacional de Colombia (1860-1903)* (Bogotá: Iqueima, 1960), II, 65.

¹² *Ibid.*

3. Foreign investment and the construction of the railway line

Once the company was established in New York and the contract was signed, the company had to face the challenge of the construction itself. The initial idea intended to start laying the rails from the Caribbean Sea, from the small town of Gorgona on the Caribbean located between Chagres and Cruces. The aim was to use steamboats on the Chagres River, as a support to the works. However the frequent changes in the river flow made a regular service impossible.

In view of the situation, the following site that was considered was the village of Portobelo because it had a small port that could be useful. However, the news spread quickly and George Loew, a hotel owner, purchased the land that would be used for the construction for USD 500.00, and offered it to the company for three million dollars¹³. These lands, near the old fort of San Lorenzo would have provided a solid terrain for a little over 40 miles with good conditions for the construction of the line, but the exorbitant price, due to excessive speculation, raised little interest and the Portobelo option was discarded¹⁴

After a bidding process, the company commissioned George M. Totten and John G. Trautwine, to undertake the railway construction, they decided to move the layout of the rail road to the east of Limon Bay, on the island of Manzanillo, where the first headquarters were established. The difficulties of getting building materials was evident from the start, to the point that the first wooden barracks had to be imported from New Orleans¹⁵.

The island of Manzanillo was rapidly populated, in a process encouraged by the company. The company called this town Aspinwall but the Colombian government rejected the name and opted for Colon; both names continued to be used for almost forty years until the Colombian Postal Service refused to deliver mail addressed to the town of Aspinwall. As of the year 1890, the town was only known by the name of Colon¹⁶.

Construction began in August 1850 around Cerro Mono (Monkey Hill), later known as Monte Esperanza (Mount Hope). This was a difficult stretch of four miles of wetlands that made transit to the Chagres River and the Indian village of Gatun very difficult. However, after having built seven miles (just over 11 kilometers), Totten informed the investors that he had run out of money, an investment of just over a million dollars that lead nowhere¹⁷. Once this was reported in New York, the company's stock quickly plummeted. However,

¹³ Ibid.

¹⁴ Trainweb, 'History of the Panama Railroad' <www.trainweb.org/panama/history1.html> [accessed 13 junio 2008].

¹⁵ Panama Canal Railway, 'Panarail Historia' <www.panarail.com/sp/historia/index.html> [accessed 13 junio 2008].

¹⁶ Ibid.

¹⁷ Ibid.

the company had a streak of good luck, as two ships bound for California, the *Georgia* and *Philadelphia*, had to seek shelter in the bay, as they escaped from bad weather. A thousand miners disembarked on the island of Manzanillo, instead of doing it at the mouth of the Chagres River¹⁸

As the miners saw the railroad, they requested tickets to be taken to their destination. This was an additional burden for Totten, since the miners interfered with the logistics of the Works. Since he was facing serious financial problems, he decided to charge a very high fee of 50 cents per mile and three dollars for every 100 pounds of luggage. To his surprise his fare was willingly accepted. This had a decisive effect on the construction of the railroad: USD 7,000 in revenues and company stocks soaring in New York. The works could continue without any financial worries. By May 1852, the railroad reached the hill top of *Frijoles*, about 18 miles from Colón. In July, the Chagres River was reached and it was necessary to build an iron bridge which allowed the first locomotive with passengers to cross this river. Once the rails reached the height of *Gorgona*, the Pacific Coast front was opened¹⁹.

In 1855 the construction teams advancing from both sides met and the first inter-oceanic, transcontinental railway in history came into operation. The total extension of the line was 47 ½ miles (77 kilometers) with an inclination of 1.14%, which provided more favorable conditions to cross the continent between Nicaragua and Darien: In the works has a total cost of USD 7,407,535²⁰

First-class tickets were set at USD 25.00; children under 12 payed USD 6.25; second class tickets were USD 10.00, and personal luggage went for 5 cents per pound. The express rate was set at USD 1.80 per cubic foot, with the promise of reducing time. However, this promise was never met due to its acceptance without complaints²¹. However, infrastructure problems rapidly started to arise, as the original pine beams that supported the rails began to rot due to harsh tropical conditions. They had to be replaced by guayacán beams (*lingum vitae*) brought from Cartagena that were so tough they had to be drilled before hammering in the nails²².

During construction emerged a few facts that should have generated the first alarms about the possible loss of sovereignty over the Isthmus, but did not. First, in an article published by Herald Panama in 1852, signed anonymously by an attorney for the company, but by the argument and the style seems authoring Totten, assured that the contract signed with New Granada gave it the company the right to make their own laws, and regulations for the city

¹⁸ Trainweb, *History of the Panama Railroad*.

¹⁹ Board of Directors & Totten, George M. , *Communication of the Board of Directors of the Panama Railroad Company to the Stockholders together with the Report of The Chief Engineer to the Directos* (New York: John F. Trow Printer, 1853), 3-16.

²⁰ Trainweb, *History of the Panama Railroad*.

²¹ Pérez, Nos dejó el trení , 163

²² Robert Tomes, *Panama in 1855. An account of The Pana Rail-Road and the cities of Panama and Aspinwall with sketches of life and character of the Isthmus* (New York: Harper and Borthers, 1855), 108.

of Columbus, and the right to establish their own security forces and independent courts to those of New Granada²³. These statements are false, because the contract specifically stated that the rail and transit area remained under national sovereignty.

Probably the owners of the company thought the settlement was built on the island of Manzanillo, under negotiation, was owned by the company but three small strips of land: one of 10 acres owned by the Panamanian government and other two belonged to the Pacific Mail Steamship Co., and Royal Mail Steam Packet Co²⁴. This situation probably caused the misconception of home ownership out of the country's sovereignty.

Second, the March 20, 1854 some U.S. citizens and other foreigners in Columbus set up a "Vigilance Committee" which claimed to be over the judiciary of the province. The organization claimed that address the deficiencies of local government, they had the moral right and duty to (re) establish law and order into their own hands²⁵. The first step was carried out to try to take control of the prison in Colon, which led to a confrontation not only with prisoners but the Panamanian guard who resisted this. This generated some concerns, but an American publisher of the *Panama Star* played down concerns that the Committee had to be the first signal to follow the path that Panama had recently taken Texas in 1845 after an initial migration of Americans.

The editor argued that not only had the necessary internal conditions in the United States had changed from 1848 on the one hand, and secondly, that there was no interest in annexing the New Granada always maintained a "neutral state" in the transit zone. Simultaneously with the existence of the Committee, Totten organized a private police force known as the Isthmus Guard, led by former Texas Ranger Ran Runnels, in order to discipline workers who challenge the authority of the company and controlled the banditry along the route with a monthly fee of U.S. \$ 1,000²⁶. Guard funding was made through the fund company and shipping companies involved and, on July 21, 1854 Governor Jose Maria Urrutia Anino Guard officially authorized. These acted without any control by the local authorities, and frequently obtain information from the local population through bribery, force or payments and, at least on one occasion that the Guard has records summarily hung their victims in the fortifications of the Panama City²⁷.

While the Guard was eventually disbanded in March 1855 to complete the construction of the route and the abrupt dissolution of the committee, it is important to note that this was not a unilateral imposition of the company's explicit project or even the U.S. government to undermine national sovereignty, but the result of collaboration compromise, although asymmetric between local government and business. This came amid an intense debate

²³ Aims McGuinness, *Path of the empire: Panama and the California Gold Rush* (Ithaca: Cornell Press, 2008), 74.

²⁴ Bristow, *Report of the Specialí* , 9

²⁵ McGuinness, *Path of the empireí* , 74

²⁶ Robert Tomes, *Panama in 1855. An account of The Pana Rail-Road and the cities of Panama and Aspinwall with sketches of life and character of the Isthmus* (New York: Harper and Borthers, 1855), 123-4.

²⁷ McGuinness, *Path of the empireí* , 76

about the type of government adequate for what is commonly called the "transit zone", which was considered strategic for the international flow of people and goods. The liberal Justo Arosemena Panama, proposed by mid-century transformation of Panama in an autonomous federal state that would guard the neutrality of the route, this proposal became law in 1855 making Panama the first of the sovereign states of the federal scheme²⁸

The turning point in the late sixties was brought about by the loss of the transportation monopoly between the East and West Coasts of the United States with the opening of the Central Pacific-Union Pacific railroad. This involved a significant detour in the transportation of goods, passengers and the valuable postal contracts. The great demand for this railway turned it, for some time, into the most profitable railway in the world: profits in 1868 came to \$ 4.3 billion, although operational profits rose to USD 1,937,079. The Impact on Colombian public finances was undeniable. In fact, the railroad became one of the nation's largest sources of income, as discussed below.

4. Foreign interests in Panama

The interests of the United States in the rest of the Americas were strategic ones from the very beginning. Probably one of the early expressions of this was the Monroe Doctrine, designed during the administration of President John Quincy Adams and presented to Congress by President James Monroe in 1823²⁹. Its three main principles were, first, that the European powers had no right to intervene in American affairs; second, that any intervention would be considered a hostile act by the United States, and third, that the establishment of settlements in America would not be allowed³⁰. The most popular corollary for this doctrine was "America for Americans," although in reality, it was applied in its most restrictive sense.

One of the basic facts that led to this proclamation came from the fact that after the political independence of the Latin American states, there were still some very strong ties of economic dependence on European states. This was regarded with prejudice by the United States³¹. However, the statement was warmly received throughout Latin America, including Colombia which suggested that the statement be ratified by the Congress of Panama in 1826, and calling it "the gospel of the new continent"³². Unfortunately, an international doctrine is as strong as its weakest interpretation and Colombia was to experience the effects of the Monroe Doctrine, in regards to Panama, during the nineteenth century.

²⁸ Ibid, 11

²⁹ John Bassett Moore, "The Monroe Doctrine," *Annals of the American Academy of Political and Social Science*, 96 (1928): 31.

³⁰ Harry T. Collins, "Misinterpreting the Monroe Doctrine," *Annals of the American Academy of Political Science*, 111 (1924): 37.

³¹ Achile Loria, "The Monroe Doctrine," *Annals of the American Academy of Political and Social Science*, 54 (1914): 130.

³² Collins, "Misinterpreting the Monroe Doctrine", 37

By this element of foreign policy, the United States, paradoxically assumed the right to mediate in the relations between European and Latin American states through a statement that supported the principle of non-intervention. At the same time it exercised a constant intervention in Latin American affairs all along the nineteenth century³³, in Mexico, Puerto Rico, Nicaragua, the Hispano-American War, Haiti and Panama, among others.

One of the first warning signs that challenged Colombian sovereignty on the Isthmus, at least for Colombian politicians such as Miguel Samper, began in 1856 and it would only end diplomatically in 1869. The incident, known as the Watermelon Affair, occurred on April 15, 1856, when some 940 passengers on board of the ship *John L. Stephens* waited in the port of Colon for the tide to change to continue the trip to the United States. Gunshots were heard on both sides³⁴.

Accounts of the incident are contradictory and tend to exaggerate the merits and faults of each party, depending on the country of origin of the author of the account. What is clear is that the U.S. citizen Jack Oliver, noticeably drunk, refused to pay José Manuel Luna, a local vendor, ten cents for a slice of watermelon. After an angry claim by the latter, Oliver pulled out his gun and fired repeatedly, causing a strong reaction from passengers. In the end, the locals stormed the Luna Hotel, where Oliver took refuge and there were several casualties³⁵.

The outbreak of riots affected the property of foreigners in the city and seems to have created a background of social resentment against the *Panama Railroad Co.* and against Americans in general, especially among the workers who lost their jobs from the moment the railroad came into operation³⁶. However, the sources of those days do not offer enough information on these circumstances, but it is a theory that cannot be discarded.

The American response was exaggerated: The U.S. government proceeded to send two warships, the *Independence* and *St. Maryø*. On September 19, 1856, one hundred and sixty marines disembarked in the area to occupy the railway station for three days. This action took place five months after the incident and with it clause XXXV of the Mallarino-Bidlack was made effective. This exacerbated the already severe criticism and discussion that the treaty was generating within Colombia³⁷.

The U.S. demands to solve the problem were disproportionate: first of all, it demanded that Panama and Colon become free cities with a government that would have jurisdiction over several miles along the rail line. Secondly, they demanded the cession of the islands in the

³³ A. Pillet, "The Monroe Doctrine," *Annals of the American Academy of Political and Social Science*, 54 (1914): 132.

³⁴ Pérez, *Nos dejó el trení*, 166

³⁵ *Ibid.* Information on casualties does not match in the various sources and figures vary, for example, between 25-50 injured, or between 16 to 20 deaths.

³⁶ Lemaitre, *Panamá y su separación de Colombia*

³⁷ *Ibid*

Panama Bay to the United States. Thirdly, the transfer of rights over the railroad to the U.S. by the Nueva Granada and fourth it demanded a compensation of two million dollars for the lives that were lost in the incident. Ten years went by before the diplomatic difference was resolved and Colombia unjustly had to pay USD 412,394 plus \$142,637 in interests, under the Herran-Mack protocol signed in 1857³⁸.

In the midst of these discussions, there was a major domestic political change. In August, 1867, as a result of the transformation of the Nueva Granada into the United States of Colombia, the 49-year concession was terminated and a new negotiation with American investors was initiated. This happened shortly before the completion of the 20 years of operation, after which the Colombian state could make use of the right to purchase the railroad for USD 5 million. Although no one would have doubted that the country would exercise this right, Totten was able to make successful lobbying in the capital, exaggerating the financial risks that the company faced and taking advantage of the nation's fiscal weakness and thus, forced the signing of a new contract in 1867³⁹.

The new negotiations incorporated some important differences: the term was extended 99 years; a payment of one million dollars and an annual payment of USD 250,000 to the Colombian government were also agreed. Additionally, the company had the right to transport troops, officers with their luggage, ammunition, weapons and other products free of charge⁴⁰.

Additionally, the new concession contract removed the country's restriction to grant privileges to build roads and a canal on the isthmus. Despite this amendment, a clause was included that protected the interests of the Railway company if the canal was built on the Panamá-Colón axis. In this case, the company would be compensated⁴¹.

This was combined with a change in the competitive conditions that the line was facing from the opening in 1869 of the *Central Pacific-Union Pacific*. The loss in market share had an impact on the financial results. Even by 1877 the railroad's income came to USD 1,284,000, while operational revenues amounted to USD 998,000, accounting for a gain of just USD 286,000. This resulted in a strong dive of company stocks on Wall Street, which after having trading at a peak \$369 per share in 1874, went down to USD 52.00 in 1876.

Faced with the loss of market presence and the elimination of exclusivity rights for the construction of a canal that the company had maintained to that moment, the French began discussing the possibility of starting the work. Initially, the Geographical Congress held in Paris in 1875 decided that it was necessary to launch a new expedition to the area, for which a new society was formed and the necessary funds were produced. Two naval officers, Armand Reclus and N.B. Wyse, and an engineer, M. Celler, were sent to explore

³⁸ Pérez, *Nos dejó el trení* , 167

³⁹ Lemaître, *Panamá y su separación de Colombia*

⁴⁰ Trainweb, *History of the Panama Railroad*

⁴¹ Lemaître, *Panamá y su separación de Colombia*.

the area and to judge the relative merits of different regions. After three years, they returned to Paris and submitted different possibilities to the 1879 Congress and it was decided that the best possible route was Colón-Panamá City⁴².

While the conclusions of this expedition were known, Ferdinand de Lesseps and other partners founded the *Société Internationale du Canal Interocéanique*, in Paris (later known as the *Compagnie Universelle du Canal Interocéanique*) with a capital of USD 214 million. Once the favorable results of the mission of the 1879 Congress were learned, De Lesseps began to accumulate large quantities of supplies in Panama, with an unexpected effect on the railroad, as it gained a significant increase in transported cargo.

However, the costs of cargo rates were too high for the French company and Lesseps decided to purchase more than 98% of the shares of the *Panama Railroad Co.* (68,887 of 70,000 available). Sares soared from about USD 60.00 to USD 291.00 per share, for a total of approximately USD 25 million (93 million francs), but this still ended up being cheaper than paying the cargo rates. It is somewhat interesting to note that the book value of the company was USD 1,500,000, but the exclusivity rights put them in an advantageous position to negotiate.

By 1886, the line carried 320,928 tons of cargo (at its highest peak) and mobilized a record number of 799,264 passengers⁴³. Lessepø's intention was to move the headquarters to Paris, but company regulations at the time of its foundation in 1849 made it impossible and the official meetings continued to be held in New York, despite the French control over the company⁴⁴. The French administration made improvements and upgrades to the infrastructure, but also acquired a significant amount of unnecessary equipment, including snow shovels, luxury homes and other goods, which generated a reputation for widespread corruption. Salaries and expenses rose significantly until the company collapsed in 1888.

Of course, the railroad offered a long-term competitive advantage over other countries in which it was feasible to build a canal. First of all, there was an adequate infrastructure to support the works. Secondly, it offered the possibility to explore the geographic and, climatic conditions and the technical features of the probable construction site and finally, it trained an important group of engineers in the skills necessary to do their work⁴⁵.

However, it also generated fear within the United States, since the prospect of losing control over a future canal and the very fact of having lost control of the railroad created strategic military weaknesses that could not be overlooked. However, the canal construction company had filed for bankruptcy and ceased its activities by 1889, although the railroad continued to operate.

⁴² Ferdinand De Lesseps, *The Panama Canal*, 517-18.

⁴³ Ibid.

⁴⁴ Trainweb, *History of the Panama Railroad*.

⁴⁵ Trainweb, *History of the Panama Railroad*.

The end of the *Compagnie Universelle du Canal Interocéanique* could not have been sadder. Lesseps spent his last years locked in a painful trial that ended in a two year prison sentence, along with his son. Gustave Eiffel was also sentenced to two years in prison by the same accusations, based on the financial loss faced by 800,000 investors who had bought company bonds. This financial scandal reached the highest levels of French government, bringing about the fall of President Sadi Carnot's cabinet and affecting the reputation of senior politician Georges Clemenceau⁴⁶.

After these painful events, the liquidators of the *Compagnie Universelle du Canal Interocéanique* were able to create a new company, the *Compagnie Nouvelle du Canal* with the remaining assets of the old company. This new enterprise had a subscribed capital of 65 million francs (USD 13,000,000), divided into 650,000 shares, of which 7.69% were considered as a payment to Colombia in exchange for ratifying the old contracts and privileges. The remaining shares were purchased by Gustave Eiffel, Philippe Bunau Rod and some of the creditors⁴⁷.

Thus, the company estate was formed by the remaining assets that still remained in Panama and, of course, by the *Panama Railroad Co.* For investors, however, the most important aspect was the exclusive rights to build the canal. The Railroad management was in the hands of William Nelson Cromwell, who also had some equity stake⁴⁸.

Simultaneously, the U.S. government continued to insist on signing a treaty with Colombia in order to build a canal, but the Colombian government constantly delayed any response. Throughout the year of 1901, Marroquin, as Vice President stood in the way of any initiative in this regard. This attitude was seen in the U.S. as a sample of the corruption in Bogotá. To make things worse, the Colombian ambassador in Washington, Carlos Martínez Silva was removed from his post by the government because of his political stand. His replacement was José Vicente Concha, who not only did not speak English but had never left the country. Under the guidelines from the Minister of Foreign Affairs, Mr. Abadía Méndez, Ambassador Concha demanded the U.S. government a sum of twenty million dollars in order to terminate the contract with the French.

For the U.S. and its interests in Panama, this situation generated more concern as it happened in the middle of the One Thousand Days War (1899-1902) in Colombia. This confrontation was the ultimate expression of the tensions between the liberal party and the conservative government of *The Regeneration*. It came to be the bloodiest and most violent civil war of the nineteenth century. The conflict took place mainly in the coffee growing region to the east of the country, but the Department of Panama was not left untouched and the war exacerbated the old Panamanian separatist intentions.

⁴⁶ Pérez, *Nos dejó el trení* , 183

⁴⁷ *Ibid.*, 185

⁴⁸ *Ibid.*

As a result of all these situations, the *Naval War College*, during the summer course of 1901, held an exercise based on a "hypothetical scenario" in the Caribbean. It made various assumptions: first, that Germany had taken control of most of the shares of the company that had the rights to build the canal and the management of the Panama Railroad; second, that a canal was being built in Nicaragua by the U.S. States, and third, that an insurrection had broken out in Colombia and that the rebels had taken control of the province of Panama. These war games were aimed at designing the best strategies to avoid the invasion of strategic spots for the U.S. which included Panama, Cuba and Puerto Rico⁴⁹.

By 1901, the company that had the construction rights on the canal and the railroad management was not German but French, which in practical terms meant the same thing. Some years ago, an important insurrection had broken out in Colombia in which the rebels had taken control of Panama so the hypothetical events were already taking place when these exercises were designed. Was it a coincidence?

In January 1903, after strong pressure from the U.S., the Hay-Herrán treaty was signed. The Americans were granted the right to build a canal and temporarily occupy a strip of land five miles on either side of the line which was to be occupied by the canal. Colombia, in return, would receive a compensation of USD 10,000,000⁵⁰. The U.S. Congress approved the treaty in two months, but the Colombian Congress received it with a negative attitude and delayed discussions on the subject, despite strong claims from Panamanian authorities. This led the U.S. ambassador in Colombia, Mr. Baupré, to send a threatening letter to the Colombian Congress urging the adoption of the treaty or to suffer the consequences. Under the banner of extreme nationalism, both Marroquín and Caro successfully opposed themselves to the approval of the treaty by the Colombian Congress⁵¹.

Although there is no solid evidence to indicate that there was a premeditated plan between the Roosevelt administration and Philippe Bunau-Varilla, testimonies from those days indicate otherwise⁵². Bunau-Varilla was a member of the secessionist junta and one of the major shareholders of the *Compaigne Nouvelle du Canal* and its representative in Washington⁵³. An article in *El Colombiano*, a local newspaper, reproduced excerpts from the American paper *The World* where it was claimed that behind the actions of Mr. Bunau-Varilla there was a "syndicate of speculators" in Paris and New York that created a fund to negotiate the shares and securities of the *Compaigne Nouvelle du Canal*. The above-mentioned syndicate raised USD 100,000, which were used by the separatist party in Panama for its activities. A sum of USD 8,000 was destined to bribe Colombian troops⁵⁴.

⁴⁹ Richard Turk, "The United States Navy and the "Taking" of Panama," *Military Affairs*, 38, no. 3 (1974): 92.

⁵⁰ Pérez, *Nos dejó el trení*, 189

⁵¹ El silencio del Sr. Baupré. (26 de noviembre de 1903). *El Colombiano*, 1903.

⁵² Información política. (12 de noviembre de 1903). *El Colombiano*

⁵³ Germán Cavalier, *La política internacional de Colombia (1903-1959)* (Bogotá: Editorial Iqueima, 1960), III, 11.

⁵⁴ Panamá: revelaciones importantes. (12 de marzo de 1903). *El Colombiano*.

On the other hand, the visible head of the union, M. Maurice Bunau-Varilla, Philippe's brother, was the editor of the French newspaper, *Le Matin* in Paris. Thanks to his activities, the canal's shares jumped from 67 francs to 115 francs at the Paris Stock Exchange. In 1903, the syndicate's profits were estimated at USD 4,000,000⁵⁵. On November 2, 1903 the captain of *The Nashville* received a cable from U.S. Consul Oscar Malmros, urging him to maintain free passage through the port of Colón and to prevent the landing of any hostile armed forces, whether from the Colombian government or the insurgents. Similar messages were sent to the *Boston* and *Marblehead* warships, which by those days were in the vicinity of Panama. The other ships would arrive after November 5⁵⁶.

These orders were carried out on November 2, after having allowed the landing of 400 men of the Colombian army the day before. U.S. troops proceeded to land in Colón, after which the Colombian contingent commander, a colonel Torres, was forced to re-embark his men on the warship *Cartagena* on November 5. On November 6, the government of the United States recognized the independence of Panama. It is important to note that the Railway Superintendent belonged to the separatist movement and through trickery he was able to ensure that only a few of Colonel Torres's men used the train to go to Panama, forcing the rest stay in Colón⁵⁷.

On the other hand, the above-mentioned superintendent, Mr. Spaller, fooled Colombian generals Tovar and Amaya, Chiefs of the Atlantic Army, to stay in Panama City, denying passage to the troops in charge of maintaining Colombian sovereignty on the Isthmus. The outcome could not have been more unfortunate: the militaries were temporarily detained along with other magistrates loyal to the central government⁵⁸.

President Roosevelt instructed the army and navy to prepare plans to prevent Colombia from stopping the separation of Panama. To this end, an order was issued that would establish an effective blockade on the Colombian coasts on the Pacific and Caribbean. Preparations were made to occupy the ports of Cartagena, Santa Marta, Sabanilla and Buenaventura⁵⁹. Of course the battered Colombian troops that had just endured the War of a Thousand Days and the dire fiscal situation made it impossible to undertake any operation to reclaim the territory of Panama. In practical terms was more an insular territory than an integral part of the nation. The separation led to a difficult diplomatic situation between Colombia and the U.S. that would take many years to ease.

In any case, President Roosevelt ordered the USS *Prairie* to depart on December 11, 1903, with a battalion of Marines on board to bolster security in Colón and along the railway. Shortly afterwards, two battalions of Marines from the USS *Dixie* arrived as

⁵⁵ Ibid.

⁵⁶ Turk, "The United States Navy and the "Taking" of Panama, 94

⁵⁷ Ibid.

⁵⁸ El silencio del Sr. Baupré. (26 de noviembre de 1903). *El Colombiano*, 1903.

⁵⁹ Turk, "The United States Navy and the "Taking" of Panama, 94

reinforcements. Thus, a provisional brigade was officially formed to defend the interests of the United States government in Panama⁶⁰.

Thanks to the adoption of the Spooner in 1904 and after the recognition of the independence of Panama, the U.S. government acquired all the rights, privileges, franchises, concessions, assignments, land transit rights, unfinished works, machinery and real estate, that belonged to the French firm *Compaigne Nouvelle du Canal*, along with all the maps, plans, drawings and files on the Isthmus itself and in Paris⁶¹. In addition, the Buneau Varilla-Hay treaty was signed which cleared the way for the construction of the Panamá Canal⁶².

Thus, the United States received the best land in Panama, although it was not to be used during the 99 year term of the franchise, which would remain in force until 1966. However, the Panama Railroad Co. gained prominence as a successful real estate agent placing these lands in the market through leasing contracts which were offered to the highest bidder with no time restrictions⁶³. By way of further treaties between the two governments, the United States took over a zone, 10 miles wide, along the canal, across the whole isthmus.

The ownership of the company was transferred to the U.S. government, along with 48 miles of railroads, 26 miles of exchange pathways and yards, 35 locomotives, 30 passenger cars and 900 freight cars. Most of this equipment was outdated, damaged or useless. The locomotives and wagons were scattered along the railroad and many of them had been covered by the local vegetation⁶⁴.

In May, 1904, President Roosevelt created the Canal Commission to build the waterway, placing the railway under its jurisdiction. The canal would have to follow much of the railway route, which made it necessary to make a complete relocation of the rail tracks south of Gatún⁶⁵. In 1905, a program to recover the entire system was initiated, transforming the railway into a two-way route which was instrumental in the construction of the canal. To continue work on the Canal, the route was relocated to higher ground as of 1907, at a cost of USD 9,000,000, lasting five years and ending in 1912. With the separation of Panama, the U.S. came to exert control over the Caribbean, from Florida to Guantanamo in Cuba and Puerto Rico, including the valuable passage through Panama, fulfilling the eighty year old remark, "America for the Americans."

5. Final remarks

⁶⁰ Henry J Hendrix, "TR's Plan to invade Colombia," *Naval History*, 20, no. 7 (2006): 36-42.

⁶¹ Novoa, B. (11 de julio de 1903). Canal de Panamá-Ley Spooner. *El Colombiano* .

⁶² However, Philippe Buneau Varilla eventually left Panama in 1927, when the Assembly of Panama declared him a pernicious foreigner

⁶³ Trainweb, History of the Panama Railroad

⁶⁴ Ibid

⁶⁵ Panama Canal Railway, 'Panarail Historia' <www.panarail.com/sp/historia/index.html> [accessed 13 junio 2008].

The Panama railway was undoubtedly one of the largest endeavors to be undertaken in Colombia in terms of infrastructure in the nineteenth century. While conditions that arose from the various concessions were disadvantageous to Colombia, they had a significant fiscal impact on the government, which given its precarious financial conditions could hardly have built the railway on its own.

The impact on the Colombia and Panama economies was modest, since the system was not intended to articulate domestic markets to international trade, but only as a transoceanic passageway; on the other hand, the construction materials needed were imported except for the *tiers* that replaced the original ones, which had no industrial linkage effects. Thus, the traditional effects on industrial development that are usually present in railway construction were not present in this case.

Of course, the U.S. stake in Panama's separation from Colombia was a source of tension between the U.S. and Colombia that would only be solved only on April 6, 1914 with the signing of the Urrutia-Thompson Treaty. Under this agreement, Colombia acknowledged, in the first of its four clauses, full ownership of the canal and the railroad by the US. In return, the latter agreed to grant Colombia free passage of troops, equipment and warships through the canal. Furthermore, the passage of Colombian mail and cargo would pay the same fees as the U.S. and, Colombian citizens would pay the same charges as U.S. citizens. Should the channel be blocked for any reason, the same conditions would apply for the Panama Railroad.

The treaty's second article contained a commitment by the United States to pay Colombia USD 25 million in gold. This compensation began to be paid in 1923 and had an enormous impact on Colombian public finances, which experienced a boom based on this payment and on two other major structural changes: a shift in external credit conditions and a coffee growing bonanza. The period between 1923 and 1928 is known as the dance of abundance and brought about important economic growth.

The treaty's third clause contained Colombia's final acknowledgement of Panama as an independent republic and the acceptance of the borders as they were established for the old Department, according to Law 9 of 1855. It also committed, under U.S. supervision, to establish diplomatic and economic relations with Panama.

It is frequent to find conflicting views in literature on U.S. intervention as clear proof of imperialism over Latin America. However, the participation of the local elites was very active and they derived important benefits from these deals. Case studies such as the Panama Railroad Co. cannot be limited to a peripheral view, or a view of local elites accepting an imperialist political force against their ñational will.ö Rather, it should be studied as a case of multiple groups within Latin America, and the Western Hemisphere in general that accept, resist or adapt to a situation according to their interests.