When Is A Promise Not A Promise?

by ALAN ST. DENIS

A HALF-CENTURY ago, a man dug a ditch. The man's name was Goethals; his handiwork is called the Panama Canal. It remains, even today, one of the truly great engineering achievements of all time. True, the building of the canal was preceded by a revolution of dubious origin, it was accompanied by gross political opportunism, and it brought fat profits to a number of itchy palms. But these incidents, benignly dismissed as understandable manifestations of a young nation's growing pains, neither dimmed nor diminished the glory of the accomplishment. Instead, most Americans found great pride and satisfaction in counting the commercial, scientific and medical benefits which resulted from the digging of this "ditch."

One wonders whether similar pride and satisfaction are possible now, in view of the history of the so-called Panama Canal bonds issued in 1911 against payment in 1961. Curiously, although they were clearly designated "Panama Canal" bonds, the proceeds from the sale of these fifty-year government debentures were not earmarked for the canal's costs, but were commingled with general federal funds. It later became apparent that calling them "Panama Canal" bonds was a clever sales promotion device, intended to take advantage of the interest and glamor surrounding the astounding construction of a navigable link between the Atlantic and the Pacific. However, again, there followed amused forgiveness of this rather less-than-ethical procedure, which was accepted and condoned as an example of characteristic Yankee ingenuity.

Another element was involved in the issuance of the 1911 "Panama Canal" bonds: the government officially declared that they "will be payable in United States gold coin fifty years from the date of their issue." Such was the unconditional promise made to every bond holder. Five decades slowly passed. The bonds matured in due course in June of this year; accordingly, the treasury department arranged for their redemption, payment to be made by check or in currency—but not in gold! And that is not all.

In 1911 the price of gold was $20.67 per ounce; it is now $35. Simple computation discloses that as a result the $50,000,000 being paid out for the bonds in 1961 is equivalent to only $29,500,000 as compared to the rates prevailing fifty years ago. Moreover, this does not take into account the considerable lessening in the value of the dollar which has been occasioned by its inordinate inflation. It thus becomes quite clear that for every dollar invested in a "Panama Canal" bond a half-cetury ago, its 1961 owner could expect a repayment of fifty cents or less (in currency), despite the pledge of the United States to redeem the bonds at par (in gold). When is a promise not a promise? The reader is invited to supply the answer.

In August and September we will again share with you that important annual event, the Henry George conference, this year from Hartford, Connecticut.