The Post-Nafta Mexican Peso Crisis: Bailout or Aid? Isolationism or Globalization?

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This essay discusses the events of the 1994/1995 Mexican peso crisis, subsequent U.S. Congressional/Executive debate over sending U.S. financial aid, and executive action. The United States had entered the North American Free Trade Agreement (NAFTA) one year earlier, and investors and politicians were hailing it as a great success. The United States seemed positioned to be the financial leader of the new post-cold-war era. But beginning on December 20, 1994 when Mexico decided to no longer support the peso against the dollar, the peso’s value dropped over 50%. This devaluation hurt Mexico, international investors, and the legitimacy of the NAFTA and trade liberalization. Those in support of the NAFTA felt the side effects of inaction in response could possibly reach neighboring countries, and result in an economic crisis. President Clinton could ill afford to sit idly by. However, the 104th Congress was sympathetic towards the anti-NAFTA labor-left and the anti-NAFTA protectionist-right. The recently elected “Contract with America” Republicans were elected on an agenda of government reduction not increased spending. This essay examines events leading to the devaluation, subsequent debates, and the President’s action. It concludes that if the United States is to maintain its economic dominance it must continue towards liberalized trade and globalization, and withstand the protectionist and labor movement’s desire to move towards isolationism.

INTRODUCTION

The United States has enjoyed 50-plus years of economic prosperity. And on October 27, 1999, President Bill Clinton announced that the United States had experienced its largest single-year budget surplus ever. It seems the United States is poised to enter the 21st Century and a new millennium with continued economic success and a future that could hardly be brighter.

However, with the end of the cold war, globalization of the world’s economy, and the global introduction of the internet, the world seems more and more economically and politically interconnected. An event as far away as India can have an immediate and direct impact on the United States. This new form of interconnection has many positive aspects and has been one of the key reasons for the continued economic success of the United States. Unfortunately however, it can also spell disaster due to interdependence. Continually, as countries rely more and more on each other they become increasingly vulnerable to each others’ successes and failures. Thus, this interdependency creates a situation where an economic collapse in one country has the potential of causing economic turmoil in another, as witnessed during the 1997 Asian economic crisis.

Could a like crisis be the eventual downfall of the American economy? In 1994/1995 the Mexican peso collapsed. News of this collapse riveted the financial world. The United States, Mexico and Canada had just entered the North American Free Trade Agreement (NAFTA), creating a new form of interdependence among the three countries. With this new form of interdependence between the United States and Mexico, created under NAFTA, as the peso collapsed many investors along with economic experts were left to wonder whether the United States would be affected by the crisis.

Leaders in the U.S. executive branch under President Clinton felt the United States was dependent upon a strong peso and the success of the Mexican economy, and therefore supported immediate financial assistance to Mexico in order...
to save the falling peso, and protect the United States from a
future crisis of its own. The legislative branch on the other
hand was of a different mentality. The historic election of
1994 had just been held and the newly elected, “Contract-
with-America” rookie Republicans felt more attached to their
constituencies, than to Mexico and the new dependent rela-
tionship created under NAFTA. They believed they were
elected to reduce government spending, not to send billions
of U.S. dollars to a foreign state. As Clinton tried to go ahead
with his proposed plan of support, Congress did everything
within its realm to make sure U.S. dollars would not be sent
to Mexico. As both sides became more and more entrenched
in their ideological stance, the first of what would prove to be
many showdowns between the new Republican-controlled
Congress and President Clinton began.

The rest of this essay is divided into five sections. First
comes a discussion of the background of the peso crisis and of
the degree of interdependency between Mexico and the
United States. The second part concentrates on the actors
involved in the early stages of the United States’ reaction to
the Mexican peso crisis, through a discussion of the dialogue
between the executive and legislative branches. Third is a
discussion of the deepening of the executive/legislative
struggle in America over what should be done. Then the
Clinton Administration’s turning to another approach is
explained. Lastly, some conclusions are drawn.

The essay is intended to contribute to better under-
standing of America’s new form of economic interdepend-
ence, and varying ideological views concerning it, as well as
an understanding of the balance of power between the exec-
utive and legislative branches of government.

BACKGROUND: THE DEVELOPMENT OF THE CRISIS

THE MEXICAN ECONOMY

Mexico, like most countries, has constantly been trying to
develop and increase its economic base. Mexican leaders
looked at globalization as a key to their continued attempt to
improve economically. Specifically they believed that
through foreign investment and other ties to first-world coun-
tries, Mexico would receive a trickle-down benefit from its
relationship with these first-world countries, especially its
neighbor the United States. They expected that as compa-
nies from the first-world invested in Mexico, and established
production plants and various other operations, some of the
money, technology and most importantly jobs would be of
benefit to Mexico, and thereby allow Mexico to develop more
quickly than previously anticipated.

Carlos Salinas de Gortari (1988-1994) based his presi-
dency on this notion and due in large part to this policy, he
enjoyed a good-standing relationship with the United States’
various presidential administrations. Highlighting the success
of this policy choice is the fact that, before 1988 when Salinas
came to office, close to 100% of all of the foreign direct
investment (FDI) in Mexico was tied to Mexico’s oil reserves.
But as of 1988 (see Chart One below) there began to be new
investments into other areas of the economy. Mexico in the
process of emerging from the trauma of a debt crisis accepted
these investments openly. More importantly, this new form of
income allowed Mexico to build up an extensive source of
international reserves.

However, Nora Lustig of the Brookings Institution sug-
gests, Mexico’s perceived economic success was not a positive
indicator of its real state of affairs. “Mexico became a victim
of its own success,” for the Mexican economy grew too
dependent on these new investments (Lustig 1998, 156). This
dependency created two major problems, from which the
crisis seemed to stem. First, with the new foreign direct
investment, the trade balance began to switch from a surplus
to a deficit (see Chart Two below). Mexico’s governmental
leaders felt the country had no choice but to finance this new
deficit with more capital inflows, creating the second
problem. By financing a deficit with further capital inflows
Mexico was only compounding its situation of indebtedness and
dependency.

The problems leading up to the Mexican peso crisis may
seem complicated; however, a parallel can be noted to the
American consumer. When a consumer has too many bills
and not enough money the consumer may choose to pay the
bills with a credit card. Unfortunately, the consumer is
thereby not actually reducing his/her debt, but merely deferr-
ing it and generating a new bill.

Equally unfortunate for Mexico, the same held true.
With this new dependency on capital inflows came vulnera-
bility to any exogenous “shocks” that affected the pace of cap-
ital inflows. If these inflows slowed down the large account
deficit would no longer be able to be financed, and the
Mexican economy would be forced to endure a sudden and
major adjustment (Lustig 1988, 157)

Despite Mexico’s vulnerability to swings in these capital
inflows, the government’s policy to contest inflation with its
exchange rate commitment had held inflation to single digits,
and produced an overall public-sector surplus since the
middle of the 1980s. Also under Salinas, Mexico’s economic
experts felt they had enacted comprehensive economic
reforms necessary for rapid increases in productivity, that
would lead eventually to increases in exports growth and
employment. This belief was reinforced by the increase in
domestic and foreign direct investment (FDI) that had taken
place over the last few years, and the new opportunities
secured for exports by the signing of the NAFTA and other
trade agreements (OECD 1996, 21-23). Thus, even though
Mexico’s economists realized the foreign investors on whom it
was so dependent would flee, if Mexico were forced to make a
drastic devaluation, they felt that the strong, stable peso was
the central ingredient to ensuring the future success of the
Mexican economy.

This was the state of affairs leading into the Mexican
Presidential election year of 1994. As the election continued
to draw near, the vulnerability of the Mexican economy increasingly pointed towards the upcoming trouble. But
President Salinas and his successor, Ernesto Zedillo Ponce de
Leon, were too consumed by the election at hand to deal with the warning signs of an economic crisis. Thus, their desire to maintain political power throughout an election, and Mexico’s policy to combat inflation with its exchange rate commitment triumphed in priority over preparation for an impending crisis, leading to stifled economic growth and low levels of employment creation in the formal sector of the economy (OECD 1996, 21). Critics of this policy called for a depreciation of the peso, arguing depreciation would allow Mexican products to become competitive in the international market, and reduce the demand for imported products at home.

However after being elected to the Presidency in August 1994 and upon taking office on December 1, 1994, Zedillo continued to maintain his strong stance on supporting a strong and stable peso. It appeared that only a drastic event would change his policy. Unfortunately for Mexico and many others, that drastic event happened only three weeks into Zedillo’s administration. The people of Chiapas were tired of having no jobs and no promised hope of future jobs. The strong peso had literally forced them out of work. It seemed in Mexico the rich were getting richer and the poor were getting poorer, frustrating the people of Chiapas into rebellion. As reports hit Mexico City of renewed rebelling in Chiapas, investors began to scramble, subsequently causing foreign reserves to drop a total of over $4 billion in one month alone, bringing the overall drop in foreign reserves from a U.S. $27 billion in February 1994 to a U.S. $11 billion by mid December 1994, and thus prefacing the government’s first decision to devalue the peso (DePalma 1994).

As reported in the New York Times on December 21, 1994, the announcement to devalue the peso (December 20) represented a major reversal of field for President Zedillo. Before taking office he had argued that the exchange-rate fluctuation band did not require any changes despite political uncertainties and a growing trade deficit (Eaton 1994). Thus, with the sudden change in policy, investors worldwide were questioning the credibility of the new administration and the viability of the Mexican economic situation. The Mexican leaders obviously expected some drop in the value of the peso as a result of some investors’ retreat. Nevertheless, they felt the devaluation was a small adjustment and nothing of great concern. It is clear by their behavior that they never expected the crisis that followed.

INVESTORS’ REACTIONS TO DEVALUATION
With the many positive changes to the Mexican economy emerging during the Salinas administration, investor confidence in Mexico had been at an all-time high. Specifically, with the recent passage of NAFTA investors felt Mexico’s economic future was all but guaranteed, causing “the amount of money in Latin American equity funds to quadruple in 1994 to $4.4 billion from $950 million a year earlier” (Eaton 1994).

Thus, when the Mexican government decided to issue tesebonos, short-term bonds that were guaranteed to be paid back in U.S. dollars, in order to finance its trade deficit, investors swallowed them up. In fact, from January 1994 to December 1994 tesebonos had increased from $3 billion to $29 billion (Lustig 1998, 171).

However, as confident as investors appeared to have been, Mexico’s December 20, 1994 decision to devalue should not have come as such a surprise to investors; “exchange-rate fundamentals” should have easily provided a basis for recognizing that old-fashioned economic rules were not being followed. But among investors there was the naïve perception that the political costs of devaluation were so prohibitive, that no rational Mexican official would even contemplate this option (Pastor 1998, 131).

Thus the sudden announced policy change by the Mexican government came as a complete shock. Investors felt misled and lost all confidence in the new Zedillo administration. Acting quickly, investors withdrew almost all their investments even despite the advice of their brokers.

After just two days of investor reaction the Mexican government was left in a state of panic. After a night of discussion its leaders decided to let the peso float freely against the dollar. This new policy decision appeared to have been the last straw. The investors now saw their $29 billion in tesebonos in jeopardy. They felt they had to cash them in now or risk losing all of their money. Mexico was in a state of economic crisis. Billions of dollars in foreign investment were leaving the country and at the same time its peso was becoming worthless.

U.S. GOVERNMENTAL ACTORS: EARLY STAGES
Back in the United States President Clinton had just finished celebrating the one-year anniversary of the signing of what was believed to be one of his greatest accomplishments, the North American Free Trade Agreement (NAFTA). At the time of the NAFTA anniversary everything appeared to be heading in the right direction, investor confidence in Mexico was growing, and politically the smooth transition from the Salinas administration to the newly elected Zedillo administration was reassuring. The United States was positive towards these developments, and relations between the previous government of Salinas and the Bush and Clinton administrations had been widely viewed as exemplary. Their teamwork in winning approval for NAFTA in late 1993 and for agreements on other bilateral issues, was characterized as the most positive working atmosphere between the two neighbors in decades (Roett 1996, 34).

Coupled with the anniversary of NAFTA, the Clinton Administration had announced the first fruits of victory: Mexico had overtaken Japan as the No. 2 consumer of American exports (Sanger 1995a). However, amid all of this celebration a new responsibility was born upon the signing of NAFTA. Under the rules of NAFTA, the United States was now obligated to assist Mexico during times of economic struggle. Such a requirement seemed of little importance at the time. But due to the fact that Mexico and the United States are neighbors, although politically and economically
different, they are mutually dependent upon one another. Any change in Mexico's economy was bound to have a direct effect on the American economy.

Thus, as triumphant as Clinton appeared to have been and despite the recent “success” in the NAFTA, the new interdependency relationship created under NAFTA would later prove to have profound implications for the United States. On December 20, 1994 when the Mexican Government unexpectedly announced the devaluation of the peso, a crisis in Mexico emerged. Clinton and “moderate” members of Congress were left bewildered, wondering what went wrong with the perceived successful NAFTA, while long-time critics of NAFTA were quick to point out its apparent “failure”: “NAFTA was supposed to be about two-way trade not U.S. taxpayer welfare to prop up the Mexican peso and the Mexican oligarchs” (Roett 1996, 35).

The Clinton Administration’s Initial Response

After endorsing the Republican-backed NAFTA and claiming it as his biggest success, President Clinton now faced his worst fears. Were Ross Perot’s anti-NAFTA predictions coming true? Perot said in his anti-NAFTA stance, “These guys are just playing poker with us, and they are going to have to devalue the peso, by 1994 the devaluation will exceed 20 to 30 percent, unleashing a flood of low-priced goods on the U.S. market once trade barriers had been removed” (quoted in Roett 1996, 35).

Amid all of this name calling and bewilderment Clinton put together a U.S. aid package for Mexico. The initial package was small and received very little publicity. However, after a few days it became obvious that much more support would be needed. The political ramifications for Clinton had a devastating potential. If the devaluation of the peso resulted in any noticeable job loss to the American economy, as Ross Perot had predicted, how would this affect Clinton’s potential for re-election? With Clinton already lacking a good reputation in foreign policy, a collapse of the Mexican peso could have haunted him throughout his re-election campaign and turned the passage of NAFTA into a political embarrassment (Lustig 1998, 187).

Internationally, Clinton also felt the Mexican crisis could cause a ripple effect and spread elsewhere, particularly to the United States which shares a two-thousand-mile border with Mexico. In a letter to Congress President Clinton argued, “The spill-over effects of inaction in response to this crisis would be significant for emerging market economies, particularly those in Latin America, as well as for the United States” (Clinton 1995).

The State Department, the Treasury Department, and the Federal Reserve all backed Clinton and lobbied Congress for support, arguing that in order to keep the recent success of U.S./Mexican relations on track the U.S. must maintain the current relationship. Any disruption to this relationship would result in problems dealing with trade, financial stability, the control of drugs, and immigration (Lustig 1998, 187).

Finally, Clinton knew that under NAFTA there was an actual obligation to help Mexico. Clearly, if Clinton backed down on this obligation, NAFTA and its credibility would be lost. President Clinton had a vested interest in Mexico’s success. However, many Congressional Democrats had voted against NAFTA, and many of the newly elected Republicans of the 104th Congress were not about to send United States dollars to another country, when the platform they ran on was one of reduced government spending.

As the peso crisis continued to develop, the truth behind the basic economic principle of interdependence became manifest, and thus left the American government to make a tough decision. Would the U.S. offer Mexico substantial financial aid in order to increase the value of the peso, or would it let market forces take effect and thus forcibly bring about sharp changes in the Mexican economy? Respectively, these were the two opposing economic strategies, which would eventually turn into an isolationism versus quasi-liberal ideological debate.

The Congressional Response

President Clinton received a mixed message from Congress. Initially, congressional leadership backed the President’s plan and guaranteed quick passage through Congress. The Senate even set up a special task force to deal with the specific crisis, including such Senators as Majority Leader Robert Dole (R-KS), Robert Bennett (R-UT), and Bill Bradley (D-NJ). Congressional leadership along with the task force echoed the same concerns as President Clinton. Newly-elected Speaker of the House, Newton Gingrich (R-GA) told fellow legislators, “We have zero choice on this. The Republican leadership is committed to doing everything we can to make it work” (Congressional Record 1995a).

But congressional support soon turned sour with the new Republican-controlled Congress and no one seemed to anticipate what would follow. First-term Republican Congressmen felt committed to the “Contract with America,” and thus felt required to cut government spending. The idea of sending U.S. tax dollars to Mexico was unthinkable.

Furthermore, members of the newly-elected Congress felt more loyalty to their constituencies than they did to congressional leadership. According to Nora Lustig,

Members of Congress from both parties felt uncomfortable—to say the least—approving a sizable rescue package for Mexico at the same time that they advocated austerity measures in the United States. Moreover, many of the new Republican members were isolationists and unsympathetic to NAFTA and Mexico. The conditions to be requested from Mexico began to mount, and they eventually covered the entire range of bilateral issues: migration, relations with Cuba, extradition practices, narcotics trafficking, and so on (1998, 179).

By late January 1995 and under the auspices of the newly elected Congress, “all hell broke loose and the GOP leadership had to back pedal quickly” (Roett 1999). In the fol-
following months it became quite evident that Congress was going to do everything possible to make sure Mexico did not receive U.S.-backed dollars.

THE AMERICAN EXECUTIVE/LEGISLATIVE STRUGGLE OVER WHAT SHOULD BE DONE

PRESIDENT CLINTON

The December 20, 1994 devaluation caught the U.S. Presidential administration as off guard as it did the investors. There had been no warning from Mexico that its leadership was considering the possibility of devaluation. After news of the devaluation, President Clinton initially took a passive attitude. If he were to treat Mexico’s devaluation as a crisis, he risked worsening the crisis. President Clinton knew the financial market was fickle, and that whatever he said or did would or could cause drastic reaction. His best option was to remain calm.

In an effort to do just that, quietly after several days of market reaction, “the United States took the lead in arranging a rescue package of $18 billion” (Lustig 1998, 169). It was presumed that “[the United States] $18 billion would calm market agents since it covered the outstanding te- bonos held by foreigners coming due in 1995” (Lustig 1998, 177). However, this amount turned out to be insufficient to calm investor fears. Investors still worried that the Mexican government would be forced to declare the inconvertibility of the peso. Furthermore, a lot more than $18 billion of foreign monies had been invested in Mexico. Not only were the te-bonos holders asking for their money, but all of the other investors were wanting their holdings back too, a total of over $50 billion. Thus, the U.S. aid of $18 billion was far too short of the amount needed to satisfy the substantial debt the Mexican market had incurred.

It quickly became evident that in order to calm the markets and stop the financial “meltdown,” the rescue package had to be large enough to calm the fear of default. Otherwise, panic selling and the spillover into other markets would not be halted (Lustig 1998, 170). President Clinton began to put together a package, entitled the Mexican Stabilization Act, that would amount to over $40 billion in aid. Although he initially hoped to be able to bypass Congress, it became more and more evident that he would need to gain Congressional approval for the package. Clinton began his lobbying campaign on an unexpectedly bright note. Senate Majority Leader Robert Dole and Speaker of the House Newt Gingrich were both in support of the package and guaranteed Congressional backing.

CONGRESS

As soon as the word got out about Mexico’s devaluation, former critics of NAFTA were firing away once again. These critics included both the pro-labor or liberal left of the Democratic Party and the protectionist right of the Republican Party. An example of this interesting combination of critics included the pro-labor and consumer advocate, Ralph Nader, joining with protectionist Ross Perot to decry NAFTA as a failure. Specifically, critics argued, “the peso’s steep drop, by making Mexican exports to the United States much more competitive with American goods, would make the United States regret its agreement to freer trade” (Bennet 1994), prompting freshman Senator Barbara Boxer (D-CA) to advocate legislation allowing Congress to reassess U.S. participation in NAFTA (Roett 1996, 37-38).

Such opposition though did not keep Senator Dole and Speaker Gingrich from feeling confident; since they had had enough votes for NAFTA a year earlier in a Democratic-held House, surely they could find enough votes in the now Republican-controlled houses. On January 18, 1995 they joined President Clinton by endorsing his proposal, asserting the U.S. had a high interest in Mexico.

However, in the week that followed, the White House, Dole, and Gingrich learned the proposed aid package would not be approved as easily as they initially anticipated. The first criticisms came from the unpredictable freshmen. Several of them started circulating letters among themselves urging each other to stand in opposition to the proposed legislation. One letter stated, “We are opposed to this proposal because we were elected to Congress to clear up the mess in Washington, not to approve a handout to the international financial community. We need to focus our energies on passing the Contract with America” (quoted in Roett 1996, 37). Only two days later, powerful Republican Jesse Helms (NC), Chairman of the Senate Foreign Relations Committee, vowed to hold “exhaustive and perhaps exhausting hearings on the pros and cons of the Administration’s proposal,” adding that the “vast majority” of Senators he had spoken with were opposed to a Mexican bailout (quoted in DePalma 1995).

Finally, as “moderate” Republicans and many Democrats joined in the opposition, leaders Dole and Gingrich both started to distance themselves from the package. Senator Dole exclaimed, “He [Clinton] needs to work within his own party. We’re not going to carry the whole load here and get hung out to dry” (Roett 1996, 37). However, Clinton and the White House staff were having little luck with their own party. For example, the Democratic Whip in the House, David Bonior of Michigan, declared that, “We must not be sending money to Mexico just to prop up a nation with the fastest growing number of billionaires in the world” (quoted in Roett, 1996, 37).

While the debate in Washington only seemed to be intensifying, the conditions in Mexico were only getting worse. The few investors who remained were faced with a currency that had been worth 3.46 pesos to the dollar at the start of the crisis, and had since declined to 5.585 pesos to the dollar, with no signs of leveling off (DePalma 1995).

President Clinton tried to counteract the opposition in Congress by sending Alan Greenspan, Chairman of the Federal Reserve System; Robert Rubin, Secretary of the Treasury; and Vice President Albert Gore to Capitol Hill in a desperate appeal for support. However, due to their lack of
success President Clinton was forced to directly appeal for help. In a meeting with business leaders at the Treasury Department, Clinton stressed, “the rescue package is important for the strategic interests of the U.S.,” and “these guarantees are not foreign aid; they’re not a gift; they are not a bailout. Rather they are the equivalent of cosigning a note” (quoted in Carrington and Calmes 1995).

RESORT TO AN ALTERNATIVE OUTCOME
In the wake of what appeared to be failure on the part of President Clinton and the White House, in late January 1995 Clinton withdrew the proposal and announced a new package. This package bypassed the need for congressional support and drew on the fairly obscure and hardly ever used Exchange Stabilization Fund (ESF). The Fund, found in the Treasury Department, was created during the time the gold standard was applicable, in order to bolster emerging market economies that were struggling to support the exchange of their currency. Predictably, far-right Republicans and far-left Democrats opposed this action, viewing it as a run around Congress. Nevertheless, Clinton still had the authority and ability to use the Fund if the proposed purpose met the rules governing its use.

The “moderates” felt differently from the rest of Congress, and once again Gingrich and Dole joined the President in support of his actions. Moderates from both parties saw the new plan as a way to support Mexico without having to be held responsible by their constituencies. In a joint statement, President Clinton, House Speaker Gingrich, House Minority Leader Richard Gephardt (D-MO), Senate Majority Leader Dole, and Senate Minority Leader Thomas Daschle (D-SD) said:

“We must act now in order to protect American jobs, prevent an increased flow of illegal immigrants across our borders, ensure stability in this hemisphere, and encourage reform in emerging markets around the world...This is an important undertaking, and we believe that the risks of inaction vastly exceed any risks associated with this action. We fully support this effort, and we will work to ensure that its purposes are met...We have agreed to act today” (quoted in Roett 1996, 39).

The President’s actions included a final February package containing the following highlights: $20 billion from the ESF; International Monetary Fund (IMF) support of $17.8 billion, the largest loan amount ever given by the organization up to that time; $10 billion in loans from the Bank of International Settlements (BIS); $3 billion from U.S. commercial banks; and $2 billion from Canada and Latin-American countries (Woods 1998, 153).

Although Clinton had regained the support of congressional leadership and moderate congressional support, he still was at odds with the anti-NAFTA right and left members of Congress. Even though he did not need their approval to advance with the intervention plan, the day following the announcement of President Clinton’s package, speaking before the House International Relations subcommittee, John P. Sweeney of the Heritage Foundation foreshadowed the soon-to-follow congressional opposition:

The original bailout plan was a bad idea. This new plan is much worse. Since 1976, every six years, like clockwork, Mexico has come to DC, sombrero in hand, pleading for a bailout, and in the last twelve years Mexico has restructured...[its] economy as many as six times. It is clear Salinas and Zedillo were doing nothing but worrying about re-election and if the economy got out of hand they knew the U.S. would bail them out as they had in the past. Begging the question are we going to bail them out again? (Sweeney 1995)

As the debate heated in the following weeks Rep. Bernard Sanders, an independent from Vermont, was quoted as saying,

“Why are we bailing Mexico out at a time when Members of Congress are proposing cutbacks in School Lunch Programs, in Breakfast Programs, in programs which hurt the most vulnerable people in our society, because the claim is we do not have enough money to provide those programs? We have more than enough problems here at home. Let us pay attention to those problems” (quoted in Congressional Record 1995a).

Thus it appeared that despite moderates’ backing of the new package, congressional and public opposition remained constant.

Senator Alfonse M. D’Amato (R-NY) as Chairman of the Senate Banking Committee, emerged as the new leader in the opposition. He was able to join forces with the new congressional members and now tried to attack the February package as nothing more than aid, suggesting that $15 billion dollars that can be used for up to 7 to 10 years, was a foreign-aid program, not exchange stabilization (Congressional Record 1995b). D’Amato therefore tried to attach an amendment onto the yearly budget bill, contending that the $20 billion in aid was against the rules of the ESF. Although his attempted amendment failed, the debate lasted over four hours and the commonly held notions and arguments against U.S. intervention were agreed to by many opposing Senators.

Congress soon began to realize it could not stop the President from using the ESF. It made one last effort by trying to pass some bills aimed at limiting the use of the funds, by dictating to Mexico how it was to use the money and to restructure its economy. These last-ditch efforts saw the passage of House Resolution 80 sponsored by Rep. Marcy Kaptur (D-OH), which requested the President to submit information to the House concerning actions taken through the ESF regarding the peso crisis (Congressional Record 1995b). The resolution passed overwhelmingly 407 to 21. In the Senate although Rep. Kaptur’s resolution was never presented, similar anti-ESF usage legislation was presented and discussed. In the end, although Congress was not successful in stopping the use of the ESF, Congress was able to attach many obligations onto the money headed for Mexico. These obligations were Congress’ perceived needed changes that had to occur in order for Mexico’s economy to turn around.
CONCLUSIONS

The Mexican Peso Crisis and the subsequent debate that took place between Congress and President Clinton may not seem like an abnormal congressional debate. However, the first 50 years of U.S. economic prosperity came at least partly as a direct result of a large cold-war military buildup. But with the end of the cold war the United States no longer faces a strong military enemy, and thus it has seen cuts in its military, forcing it to rely more upon the globalized economy versus a militarized economy. Interestingly though, as witnessed during the Mexican Peso Crisis, many Americans and many U.S. politicians are hesitant to support the continued shift towards globalization. They argue that dependence upon foreign economies will come at the expense of U.S. sovereignty. They also see a potential for future job loss in America, believing that as more and more foreign companies are allowed to compete for the U.S. consumer, because of cheap foreign labor foreign companies will have an unfair advantage over their U.S. counterparts.

Therefore, the lack of adequate congressional support in this case is due in large part to the efforts of the isolationists right and labor left, who labeled the aid package as a bailout and further claimed taxpayers would be financing the brunt of Mexico’s problems, while bailing out the rich Mexican and American investors who had gambled on Mexico’s miraculous ascent and lost (Sanger, 1995a). In contrast, many members of Congress who may have viewed sending financial aid to Mexico as justifiable, felt the American public was not in support of a bailout. Because the American public did not want the passage of the Mexican Stabilization Act, these congressional sympathizers too were compelled to vote with their constituencies or face possible repercussions as they tried for re-election. This fear was portrayed in the Wall Street Journal as its reporters interviewed Rep. Zach Wamp, a newly elected Republican from Tennessee.

Why the newcomers were isolationists was obvious, they were being loyal to their constituencies. Rep. Zach Wamp stated, emerging from a briefing with Federal Reserve Board Chair Alan Greenspan, “He’s a whole lot smarter than the people of east Tennessee who I was elected to represent, but I’m going to vote with them this time and not with Mr. Greenspan” (Carrington and Calmes 1995).

Thus, although until the Mexican Peso Crisis the U.S. was successful in entering NAFTA and other trade liberalization treaties, it appears the peso crisis marked the end of any current movement towards liberalization of trade. The makeup up the newly elected 104th Congress surprised everybody. Starting with the peso crisis and continuing through the 106th Congress, Congress has continued to frown upon legislation that deals with increasing the globalized economy. A more recent example was seen with the 1997 “fast-track” legislation debate. Fast-track would have allowed the President to negotiate independently of the Senate on treaties dealing with trade. Once again the isolationist right and the labor left joined forces, and were able to convince many Americans and most of the other members of Congress that this legislation would have given the President too much power, and could possibly have resulted in major US job loss. (The argument by the trade-liberalization advocates is that such job loss will be more than offset by job-gains through increased U.S. exports.)

Finally, the question remaining is, as the U.S. currently moves more and more towards isolationism will the U.S. break this trend and once again support trade liberalism? To have any possibility of predicting future economic policy decisions, economists, investors and others must have a clear understanding of those who form U.S. policy, the legislative and executive branches.

Looking at the peso crisis, we see that in large part, because of the executive branch and its support of globalization, an aid package was able to emerge. When the White House could no longer count on Congress for support it was able to quickly collaborate with the power of the Federal Reserve and use the Exchange Stabilization Fund. Next, the White House was also able to quickly call upon and receive international support. The ability of the White House to have access to the Federal Reserve and the Department of the Treasury, along with instant access to international support, gave it power over Congress in this instance. And in retrospect it seems clear that the February package actually represented a better alternative for Clinton and America than his original proposal. Clinton and his Cabinet were able to send Mexico the relief they felt Mexico needed, while not forcing the United States to bear more than a fraction of the economic burden if the aid package failed. With the international support contained in the new package, it also allowed moderates such as Dole and Gingrich to be able to endorse the new package without fear of much party or constituent backlash.

Thus despite the efforts of the isolationists and the labor camp, Clinton succeeded. The outcome of the peso crisis suggests that the executive branch is quite powerful. And as long as an isolationist or labor enthusiast is not elected to the White House, these movements will most likely be quite limited in their influence. However, during the peso crisis their influence over Congress was large, and of course Congress is not without power. During the crisis the isolationists and labor supporters were successful in forcing President Clinton to backpedal, and among many who have studied the crisis it has been suggested that neither President Clinton nor Congress was successful during the crisis (Roett 1999).

Therefore, as the trend towards isolationism continues to develop within the U.S., will the U.S. be able to enjoy another 50 years of economic success? The author feels that in order for the U.S. economy to continue to grow, it must continually move towards a liberalized economy or in other words a globalized economy. This may require aid to countries such as Mexico and more recently Russia and Indonesia, but without their success the U.S. economy cannot possibly continue to grow as well as it should. As a testament to the importance of such aid, four years after the peso crisis Roberto
Blum has suggested “...the 1994-95 crash [in Mexico] would have been much worse and the recovery slower without NAFTA” (1999).

Thus, due to the strong movement towards isolationism, if the United States is to enjoy a new millenium and another 50 years of economic success it must learn to succeed in a globalized economy and not fight it. The world is looking to the United States to lead it into the new millenium. Will the United States become the first peaceful hegemonic power in history or will it retract its sphere of influence in the name of sovereignty, putting at risk 50 years of economic success? The United States must look beyond re-election politics and understand its role in the world. It must lead the world into an economically and politically prosperous 21st century and a new millenium.


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