

3-8-1995

Mexican, U.S. Legislators Skeptical of Clinton's Rescue Package for Mexico

Carlos Navarro

Follow this and additional works at: <https://digitalrepository.unm.edu/sourcemex>

Recommended Citation

Navarro, Carlos. "Mexican, U.S. Legislators Skeptical of Clinton's Rescue Package for Mexico." (1995).
<https://digitalrepository.unm.edu/sourcemex/3402>

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.

Mexican, U.S. Legislators Skeptical of Clinton's Rescue Package for Mexico

by Carlos Navarro

Category/Department: Mexico

Published: 1995-03-08

In late February and early March, legislators in both the US and Mexico raised strong objections to the international rescue package of US\$50 billion coordinated by US President Bill Clinton's administration. The total package which includes loan guarantees of US\$20 billion from the US, US\$20 billion from the International Monetary Fund (IMF), and US\$10 billion from the European-based Bank for International Settlements (BIS) was announced in late January (see SourceMex, 02/22/95). In return for the package of loan guarantees, President Ernesto Zedillo's administration agreed to take steps to support the peso, limit inflation, reduce government spending, and expedite the sale of government enterprises. Critics warn, however, that the conditions virtually ignore the social and economic consequences of these policies, such as high interest rates, a surge in unemployment, and negative GDP growth.

The economic package gained approval in the Chamber of Deputies on March 7, supported mostly by the members of Zedillo's Institutional Revolutionary Party (PRI). The package was opposed by virtually all members of the opposition Democratic Revolution Party (PRD) and the National Action Party (PAN). Criticisms centered on the tough economic conditions imposed by the US and international creditors and President Zedillo's use of profits from exports of crude oil as collateral for the loan guarantees. One PRI member abstained from voting, charging that the rescue package was a prescription for "recession with inflation." Even before the special session, the government's approach to the devaluation faced strong criticism from legislators.

During a March 2 hearing of the finance committee of the Chamber of Deputies, PAN Deputy Jorge Padilla criticized the Zedillo administration for taking the same "ineffective" actions that were used to deal with previous devaluations. "Every time there is a crisis in Mexico, the same treatment is always applied, which is simply higher interest rates, and that only ends up punishing Mexico's productive sector," said Padilla, referring to the peso devaluations of 1982 and 1987. Debate during hearings of the special committee and the special session of the full Chamber of Deputies also centered on whether the devaluation could have been avoided had former president Carlos Salinas de Gortari's administration taken the appropriate actions during 1994.

Even though the devaluation took place under Zedillo, most Mexicans blame Salinas for not devaluing the peso in an orderly fashion during his term in order to avoid financial panic. During five hours of testimony before the legislative finance committee, Finance Secretary Guillermo Ortiz hinted that the Salinas administration was to blame for the devaluation. He suggested that if "other measures" had been taken earlier, the devaluation in December could have been avoided. Ortiz, however, was careful not to directly blame Salinas or former finance secretary Pedro Aspe, who was Ortiz's boss in the previous administration.

In the US Congress, Clinton's rescue package came under strong criticism in both the House of Representatives and the Senate. The strongest concerns were raised in the House, which on March 1 overwhelmingly passed a non-binding resolution requiring the administration to turn over all documents concerning the rescue effort by the middle of March. In the measure, which was approved by a vote of 407-21, the House asked for details on US-Mexico consultations and on the plans by the Banco de Mexico and the Zedillo administration to stabilize the Mexican economy.

Among other things, the measure asks for lists of all individuals, partnerships, joint ventures, and corporations that will get any of the US money and the extent to which Mexico's government is complying with the agreement. The House also requested a record of past annual revenues of the state-run oil company Pemex, anticipated annual revenues over the next five years, and how much of those revenues are free of other commitments so that they will be available if necessary to repay the US aid.

In passing the resolution, several legislators complained that the Clinton administration had left them out of the debate on the Mexican rescue package. Clinton had originally hoped to gain legislative approval for a rescue package of US\$40 billion for Mexico. However, after determining that legislative support was insufficient, Clinton opted on Jan. 31 to instead use his executive authority to draw on a special dollar-stabilization fund. In the process, he also secured increased commitments from the IMF and the BIS.

Another issue raised in the House was the role of Treasury Secretary Robert Rubin in the rescue plan. On March 2, Rep. Spencer Bachus, who heads the Banking Committee's subcommittee on investigations and oversight, said Rubin's past involvement with the New York-based brokerage firm Goldman Sachs and Company represented a conflict of interest and was a "cause for suspicion." Rubin was co-chairman of Goldman Sachs from 1989 until he joined the Clinton administration in 1992. "It has come to light that one of the Wall Street financial interests with the greatest stake in the Mexican bailout is Goldman Sachs," Bachus said in a statement released at a news conference. He said Goldman Sachs purchased US\$5.17 billion in Mexican securities from 1992 through 1994. Bachus charged that Rubin may have had business dealings with a number of big Mexican companies, including Telefonos de Mexico (Telmex), while he was at Goldman Sachs.

For his part, House Speaker Newt Gingrich (R-Ga.) told reporters he would not discourage Bachus or other Republicans from investigating whether Rubin properly followed conflict-of-interest rules in overseeing the rescue. On the other hand, Gingrich said "the odds are pretty good" that Rubin followed all the rules and "did what the lawyers told him to do." At least one influential Republican, Rep. Jim Leach of Iowa, came to the defense of Rubin. Leach, who is the chairman of the House Banking Committee and who supported Clinton's rescue package, said he had "thorough confidence" in Rubin's ethics. Leach also told reporters that the House request for information "in no way jeopardizes the US\$20 billion in aid Clinton approved for Mexico from a US currency economic stabilization fund.

In the Senate, the chairman of the Banking Committee, Alfonse D'Amato (R-NY), asked the Clinton administration on March 6 to suspend further economic support for the Mexican peso until his committee conducts hearings on the aid package. The previous week D'Amato had requested

information regarding Mexico's exchange rate, monetary, and debt policies. According to D'Amato, as of March 3, Mexico had drawn US\$3 billion of the US\$20 billion in loans and loan guarantees the US is making available through the Exchange Stabilization Fund (ESF), an account at the Treasury Department that is normally used to support the dollar.

"Before Mexico draws further funds from their ESF facility, and particularly in view of the deteriorating situation in Mexico, Congress must reassert its rights and prerogatives with regard to this matter," D'Amato said in a letter to Secretary Rubin. Indeed, on March 6 the Banco de Mexico confirmed that more than US\$8 billion of foreign investment in bonds had been withdrawn from Mexico during February, requiring Mexico to use US\$3.3 billion of the funds guaranteed by the US, and US\$7.5 billion from the IMF.

The rescue package was also criticized by Senate Majority Leader Robert Dole (R-Kansas), who expressed concern that the anti-inflation measures required for Mexico were not strong enough. In a Senate speech in late February, Dole said that the package did not address the problem of "extinguishing" or stopping an excess of pesos that he said have been coming off the Mexican printing presses as recently as last week. "I hope it is not too late," Dole said. (Sources: Deutsche Press Agentur, 02/28/95; El Financiero, El Universal, United Press International, 03/02/95, Notimex, 03/03/95; Agence France- Presse, 03/01/95, 03/06/95; Associated Press, 03/02/95, 03/06/95; Reuter, 02/28/95, 03/01/95, 03/06/95, 03/07/95)

-- End --