

Bob Dole



NEWS

U.S. SENATOR FOR KANSAS

FROM:

SENATE MAJORITY LEADER

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MEXICO ASSISTANCE

DOLE FINDS US-MEXICO AGREEMENT DISAPPOINTING; ADMINISTRATION MUST FOCUS ON "EXTINGUISHING" PESOS & RESTORING CONFIDENCE IN MEXICAN CURRENCY

When President Clinton announced a financial package to aid Mexico in its current economic crisis, Speaker Gingrich and I announced our support. Mexico was, and is, of vital importance to the United States. In my view, we could not stand by and watch Mexico financially melt-down if there were any realistic chance to help.

Earlier this week, an agreement was signed between the United States and Mexico, and its full details were released to the public. I have analyzed it, with the help of staff, outside advisors, and other senators. I find it somewhat surprising and, at its core, disappointing. My message should not be misinterpreted -- I do want U.S. efforts to assist Mexico to work. I hope we can help Mexico achieve the financial stability that they so desperately need. However, I must reluctantly point out the shortcomings of the agreement reached this week.

In my view, the basic mistake Mexico made last year was allowing events to get to the point where the only apparent choice was to devalue the peso. Perhaps the government believed that a little devaluation would be a good thing.

Common sense should have recognized that Mexico's decision to break its promise to the Mexican people to keep the peso stable against the dollar would precipitate a breach of trust -- a stampede to get out of pesos and into dollars.

Restoring Confidence in Peso

The Treasury Department needs to be very careful in the use of funds from the exchange stabilization fund. For example, I am not convinced that thrusting the United States into the middle of a Mexican banking crisis is prudent or necessary.

The primary focus of the stabilization plan is not aimed at reversing the fundamental mistake of devaluation -- not now and not over time. The measures described in the agreement to firm up the price of the peso seem almost an afterthought. They do not address the problem of "extinguishing" the excess pesos that have been coming off the Mexican printing presses, even as recently as last week. The heart of the problem is restoring confidence in Mexican pledges by moving towards restoring the value of Mexico's currency.

I hope it is not too late. I hope that administration officials will still focus on the main target: extinguishing pesos and restoring confidence in the Mexican currency. This should be the first priority, not raising interest rates.

It appears my concerns are shared by the markets. When it was first announced that the U.S. would help Mexico, the Mexican stock market went up and the peso strengthened. Yet when the exact terms of the deal were made public, the peso weakened and the stock market resumed its slide.

Congress to Examine Issues

In the coming days and weeks, Congress will examine many issues in the Mexico situation -- what advice the administration gave, when officials knew about the devaluation, allegations of conflict of interest, and other issues. I am also working with the administration to send a group of senators to Mexico in the near future to get a first hand assessment of the situation. A central part of that assessment will be looking at whether the administration's proposed medicine will cure the disease.

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