The Pre-Events Of Mexican 1994 Crisis

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Abstract: The purpose of this paper is the examine the pre-events of Mexican 1994 crisis is also known as the Mexican pesos crisis, is the first global economic crisis in XX century. The crisis started at 1994 and affected whole world, especially Latin America. The crisis started with the sudden devaluation of the Mexican peso. But the root of the crisis runs deeper: it started a few decades earlier.

Key words: Mexico; United States of America; economical policies; Institutional Revolutionary Party; Mexican miracle; oil boom; NAFTA; economical crisis

Political situation in Mexico at the begging of XX century
Through the twentieth century Mexico, uncommon for Latin American countries, had been in the political stability. The main power of the political stability was the Institutional Revolutionary Party (PRI, Partido Revolucionario Institucional in Spanish), firstly called National Revolutionary Party (PNR, Partido Nacional Revolucionario in Spanish), then Party of the Mexican Revolution (PRM, Partido de la Revolución Mexicana in Spanish) and now Institutional Revolutionary Party,PRI. This party until the elections 2000, had won every presidential elections for the last sixty years. In the Mexican democracy real political power and person who is making a decisions is president of the state.

After Mexican revolution which ended in 1920, Mexico had continued to be unstable country in the political term. Political crisis caused by the 1928 assassination of the president elect Álvaro Obregón forced ex - Mexico president from 1924 to 1928 Plutarco Elías Calles to found National Revolutionary Party (PNR, Partido Nacional Revolucionario in Spanish) in 1929. In that period many political parties had been established and disappear from political scene thought the night, but National Revolutionary Party resisted to the turbulences. Those political turbulences helped to National Revolutionary Party to establish hegemony at the political scene of Mexico. But National Revolutionary Party by itself had two strong lines, conservative and liberal. In a first few years conservative line had been much stronger, but this ended with the election of Lázaro Cárdenas del Rio for the president of Mexico in 1934, who served from 1934 to 1940.

Lázaro Cárdenas del Rio had been a liberal and a member of National Revolutionary Party. His policies were important in the spheres of economics and politics. During the presidency of Lázaro Cárdenas del Rio the National Revolutionary Party changed the name to Party of the Mexican Revolution (PRM, Partido de la Revolución Mexicana in Spanish). Lázaro Cárdenas del Rio did a huge and significant changes in the economy of Mexico. He nationalized railways, oil production and he implemented an ambitious land reform called Ejido program.

The purpose of Ejido program was to give the right to use land to a huge number of peasants, but not ownership. With this policy peasants movements like Zapatistas had been integrated into political system and forced them to fight for their rights through the political way, minimizing the risk of future rebellions who will unstable country and economy.¹

Another great achievement during the presidency of Lázaro Cárdenas del Rio was that the government gained control of the labor movement through the Confederation of Mexican Workers (CTM, Confederacion de Trabajadores Mexicanos in Spanish), which is still a pillar of the PRI. All these policies generated social peace and high growth from the 1940s through the 1960s.

¹The Ejido is a communal tenure system that prohibits the selling of land. This program limits peasants’ access to credit and improvements in production and, in the long run, undermines agricultural productivity. Ultimately, the rural sector was polarized into two sectors, a modern and highly productive agricultural sector, with large-scale operation and access to export markets, and a backward sector formed mainly by Ejido lands that remained isolated and scarcely linked to the market economy.
Cárdenas del Rio gave his successor Manuel Ávila Camacho stable country which result will be the Mexican miracle from 1940 to 1968.

**Mexican miracle**

Mexican miracle is common expression for the governmental economical policy. During the almost 30 years Mexican government supported and protected private sector in the country.

The duty of the state was to create and maintain the economic infrastructure; it should refrain as much as possible from intervening in the market; and it should develop those industries only where the private sector was uninterested in developing.

Little by little what emerged in Mexico is what is called a mixed economy, where a constant struggle ensured between the interests of the private bourgeoisie and the entrepreneurial state. After 1940 1/3 of all investments in Mexico would be made by the state. This agreement between the bourgeoisie and the state was extremely effective and led to what many observers have called the Mexican Miracle. Between 1940 and 1960 production increased 320%, and between 1960 and 1980, 270%.

This meant that the Mexican economy had grown an average of 6% per year between 1940 and 1980. It also meant that the economy had produced 870% more goods and services in 1980 than it had in 1940. Population at the same time had only grown 370% between 1940 and 1980.

The structure of the economy also had changed. In 1940 agriculture represented around 10% of the national production, but by 1970 this number had dropped to 5%. Manufacturing, on the other hand, increased from 19% to 23%. The population also increased from 19.6 million in 1940, to 67 million in 1977, to more than 70 million in 1980.

In 1940 only 20 percent of the population lived in cities. By 1977 almost 50% lived in urban areas. And in the 1980's 60-70% lived in cities. Thus, together with the industrialization process, the country experienced in forty years spectacular change in rates of urbanization and demographic growth.2

Manuel Ávila Camacho had different vision from his predecessor Lázaro Cárdenas del Rio about economic issues in the country. Manuel Ávila Camacho continued Ejido program, but the numbers of distributed land were enormous. During presidency of Lázaro Cárdenas del Rio more than 49 million acres had been given to the peasants, while Manuel Ávila Camacho parceled out less than 12 million acres. Manuel Ávila Camacho favored private ownership more than state ownership, and he deemphasized the importance of the Ejido program.

The legacy of Manuel Ávila Camacho presidency was the Bracero program, established in 1942. The main goal of the Bracero program had been recruitment of cheap Mexican labor and sent to the US to work in agriculture.3

The program achieved great success. By the spring of 1943 the program was expanded and beside agricultural labor included also non-agricultural labor force. The policy find out a great protest by US unions. Beside protests the program continued. By 1945 the Bracero program was well established and some 200,000 Mexicans had worked in 25 different states and many sectors of the US economy had become dependent on cheap Mexican labor force.4

Manuel Ávila Camacho served as the president of Mexico from 1940 to 1946 and he changed the name of party and gave today’s name Institutional Revolutionary Party, PRI.

Mexico and United States of America had a history of animosity. Everything has changed with Manuel Ávila Camacho. Not only that he started Bracero program with USA, he also warmth diplomatic and business relationships with USA and even he entered into World War II on the side of the USA. Suddenly, Mexico found itself an ally of a country that had been its main enemy in the world. This friendship helped Mexico to get its first international loans since the Huerta regime during the revolution, it also opened up its markets to Mexican goods.


3 https://migration.ucdavis.edu/rmn/more.php?id=1112

The Mexican government signed agreements with United States of America concerning commerce, migrant farm workers, and military cooperation. Raw materials were sold to the US at lower than free-market prices.

The industrialization project coincided with WWII. From 1942 on, exports of raw materials grew noticeably and Mexico obtained the necessary hard currency to import the equipment that the factories needed.

Between 1940 and 1945, the industrial sector grew at an annual average of 10.2%. During the war, Mexican industry took advantage of the productive vacuum in the world markets. US and other industrial nations were manufacturing war goods, leaving a gap in the world manufacturing market for civilian goods, which Mexican industry would fill.

Unfortunately, the sources of machinery, the US and Europe, were absorbed by the war effort and could not supply the technology and machinery that Mexican industry needed to be competitive.

After the end of the war Mexico found itself incorporated into the American sphere of influence. To find a balance and the possibility of European countries serving as a political counter weight to US dominance was non-existent, because Europe by themselves were incorporated by US influence. Mexico lost many of its foreign markets as US industry moved back to the production of civilian goods. Mexican industry was unable to compete on the foreign market and was forced to turn inward, and produce for the domestic market. That was the begging of program called Import substitution industrialization (ISI).

Manuel Ávila Camacho successor Miguel Alemán Valdés gave to the industrialization a strong impulse. He was commitment to industrialize country. He modernized infrastructure, railways, communication systems and roads. Miguel Alemán Valdés continued policy of good relations with USA. Actually he made relations much more tier. Miguel Alemán Valdés was the first Mexican chief of state who visited Washington DC. He also invited US president Henry Truman to visit Mexico City.

He understood importance of Pan-American highway and under his rule this highway has been constructed. Also, he noticed that tourism can play an important role in the development of country. He connected Mexico with USA with large network of roads and highways to in desire to attract as much as possible tourist form United States. The result of this policy was in 1952 400,000 US tourists had visited Mexico and had left millions of dollars. Furthermore, oil production doubled and took and important part in industrial development. One of the most marketing followed project was the new University city that was built to house the National University of Mexico. The campus was three square miles and was one of the most modern in the world.

In 1939, manufacturing represented 16.9% of total production; in 1946, it sent up to 19.4%; and by 1950, 20.5%. Throughout the industrialization process he protected Mexican industry with different laws and regulations helping. Those protect measures helped to the Mexican companies to establish themselves and even to expand. But this measures had bad side affect, because companies had a monopoly and security provided by state. The business without competition and right regulations who will protect customers did negative side to the companies also. They didn’t invest in the new technologies fast enough and Mexican goods and products couldn’t be competitive in foreign markets. This protectionism helped to Mexican industry, but it did not force them to be efficient. And in the long run this prevented Mexican industry from going beyond its borders and this hindered a truly modern and independent industrialization.

The fact that Mexico was able to combine economic growth with political stability led many observers in the 1960's to suggest that Mexico was a model that other developing nations should follow.

With the political and economical stability arrived foreign investors. For example, direct foreign investment in Mexico in 1940 was barely $450 million; by 1960 it surpassed a billion dollars; by the mid-1970's it had reached $4.5 billion; and in the 1980's it surpassed $10 billion a year.

In the early 1960's there were indications that the Import substitution industrialization (ISI) model of industrialization was not working well. It became clear that the industries that had been built could only survive in the free-market with strong protectionism and tariffs.

The industries were stagnant and could not grow fast enough to resolve either the growing deficits and the population boom that Mexico was experiencing. Agriculture also showed signs of stagnation. Its productivity had decreased and it was unable to even feed Mexico, let alone serve as a dynamic export sector.

Gustavo Díaz Ordaz Bolaños had been a president of Mexico from 1964 to 1970. He continued the policy of good relationship with United States of America. During his presidency he created and launched Border Industrialization program. The purpose of program was to create the plants along the border with United States of America for US industry and needs. In the plants will be working low skilled Mexican workers for low price. The goods for factories can be imported duty free. The final products will be sent to US or exported in foreign markets. With this policy Mexico decreased unemployment and protected domestic (closed) market.

He established the Mexican Institute of Petroleum in 1965, an important step since oil has been one of Mexico's most productive industries.

In 1965 1.5% of businesses controlled 77.2% of all capital. Several analysts proposed that tax policy would aid in the distribution of wealth in Mexico. But the resulting tax reforms after 1968 were insufficient. Expenses by the federal government went up from 23% of the total in 1970, to 42% in 1976.