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In the Shadow of Mexico, Canada Faces It's Own Economic Dilemma

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Member States Developments: Canada

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I. Introduction

As free trade members prepared to do battle with the Mexican Peso, the northern member of the agreement, Canada, faced its own economic dilemma. After a year in which Canada grew at the fastest rate of the Group of Seven[1] major industrial nations, the bottom seemingly dropped out of the Canadian dollar in 1995.

Investors, worried about massive government debt,[2] drove the Canadian dollar to a nine-year low of just above 70 U.S. cents — and dubbed it the "northern peso."[3] Yet, the sagging Canadian dollar has gone largely unnoticed. It didn't create the same financial market turmoil as the 40 percent devaluation of Mexico's peso.[4] It didn't prompt Mr. Clinton to fashion a rescue package for Canada. Indeed, Canada put up more than $1 billion as part of the worldwide effort to help Mexico overcome its peso panic.[5]

Economists attribute the loss of confidence in the Canadian dollar to the country's mounting debt.[6] According to the Organization for Economic Cooperation and Development, or OECD, Canada's gross public debt at year-end stood at 95 percent of its annual gross national product. Only three other countries are deeper in debt: Italy, Belgium and Greece.[7] The OECD also reports that the Canadian budget deficits, as a percentage of total output, have averaged 6.7 percent over the past four years, more than double the 3.2 percent of the United States.[8]

What this update attempts to focus upon are the details of the Canadian economic dilemma. The first area of focus will be the causes of Canada's economic problems. Strikes in the transportation sector, a weakening U.S. economy, and continued threats of secession by Quebec are important factors contributing to the economic deceleration of Canada.

This update will next focus on steps the Canadian government has taken to try and alleviate the economic problems facing Canada. Prime Minister Chretian has come out with a budget that has planned $18 billion in cuts in government spending over the next three years and the Canadian government has tried lowering interest rates to stimulate consumer borrowing.

Lastly, this update will highlight the current state of the Canadian economy.

1. The United States, Canada, Japan, Germany, England, France, and Italy are the seven major industrial countries.
2. The Canadian debt now stands at $550 billion.
3. William C. Symonds, *A Chill Wind Hits Canada: Newtnomics*, BUS. WEEK, Mar. 13, 1995, at 58.
4. Richard Alm, *Canadian Debt Causes Long Slide in Currency*, Dallas Morning News, Jan. 30, 1995, at 1D.
5. *Id.*
6. Canada became debt ridden by borrowing money from foreign investors.
7. Alm, *supra* note 4, at 1D.
8. *Id.*

II. The Canadian Economic Dilemma

In the first quarter of 1995, Canada's gross domestic product, which measures the output of goods and services, rose just 0.2 percent in the first three months of the year.[9] After the first quarter, economists were pointing to the gross domestic product and the following indicators to support their contention that the Canadian economy had slowed to a crawl:

— April sales in the Canadian auto industry dropped to 18.6 percent;
— Bankruptcies rose to 7,110 in March from 6,571 the same month a year earlier;
— Gross domestic product fell 0.1 percent in February for the first time since July 1993, after growing by an average of 0.4 percent per month in the final three months of 1994;
— Housing starts fell 10.1 percent in the first quarter to an annual rate of $127,000 units;
— Building permits in the first quarter were at their lowest level in four years;
— The help wanted index, an early indicator of the demand for labor, fell in April for the first time since November 1993;
— The private sector Conference Board of Canada index of consumer confidence fell in the first quarter for the first time since 1993.
— Statistics Canada stated that manufacturers were "considerably" more pessimistic in the first quarter than in the fourth quarter of last year.[10]

The slowdown came suddenly. The economy, which had been led by exports, held steady at a 6 percent growth rate for much of 1994. The first quarter of 1995 saw growth plunge to 0.7 percent.[11] Real retail sales and exports in April began the quarter far below their first-quarter levels, and May housing starts were the lowest in 15 years, leading some to speculate that second quarter growth would be negative.[12]

Continuing in the trend of deceleration, housing construction hit a 14-year low in March and despite a slight rebound in May, it remained in full-blown recession. The recession in the housing industry also pulled down other sectors such as sales of furniture and appliances.[13] To make matters worse, inventories backed up, requiring production cuts that will extend the softness into the third quarter.[14]

Unemployment rose to 9.5 percent in May from 9.4 percent in April; almost no new

9. Gross Domestic Product measures the value of all goods and services produced by workers and capital within Canada, making it the broadest measure available of overall economic activity.
10. Robert Kozak, *Canada Economy Seen Slowing, May Slip to Recession*, REUTER NEWS SERVICE, May 4, 1995, available in LEXIS, Nexis Library.
11. *Id.*
12. Robert Kozak, *Canada's Economy Slows to a Crawl in First Quarter*, REUTER BUS. REP., Jun. 12, 1995, available in LEXIS, Nexis Library.
13. Eric Beauchesne, *Economy Alert, Charting a Soft Landing; Bank of Canada Governor Hopes Policies Will Keep Economy Chugging Along*, Ottawa Citizen, May 12, 1995, available in LEXIS, Nexis Library.
14. James C. Cooper and Kathleen Madigan, *A Chill Wind Blows from the South*, BUS. WEEK, July 10, 1995, at 30.

jobs were created in Canada the first six months of the year. As a result, the high jobless rate eroded confidence making consumers more reluctant to buy big-ticket items such as cars and houses.[15]

With the Canadian economy in a virtual tailspin, economists were searching for answers to the question of how an economy, which prospered in 1994, slowed to a standstill in 1995. Many economists cited the Canadian rail strike as one reason why the economy seemed as though it was heading toward a recession.

III. Causes of the Canadian Economic Dilemma

A. The Canadian Rail Strike

On March 18, 1995, Canada's railroad employees began a nationwide rail strike, bringing a virtual halt to freight and passenger rail service across the country. Unions at the country's three major railroads, Canadian National Railways, CP Rail System and Via Rail Canada, initiated the strike in a labor dispute with railroad management over wages and job security.[16]

The labor dispute centered on rollbacks in job security that the railroads were demanding from labor unions. The companies argued that they had to bring labor costs down in light of the lower costs of rail operations in the United States and in other transportation industries, such as trucking.[17] The unions countered by arguing that their members could not afford to give up job security because the railroad industry was about to enter a restructuring period. Also, the unions alleged that it was not necessary to give up job security because the freight railways were recording healthy profits.[18]

The Union also asked for higher wages, arguing that it had been two years since most employees had been given a raise. Management, struggling with large networks of obsolete branch lines and $1.1 billion in combined losses since 1993, contended that it could not afford higher labor costs and that rail workers were already the highest paid transport workers.[19]

Canadian National and government owned Via Rail stopped all rail service during the strike, but CP Rail, a division of Canadian Pacific Ltd., kept some key freight lines operating by using some 2,000 nonunion workers to maintain railroad trades and trains. About 7,000 unionized employees who normally performed those jobs had joined the strike.[20]

The day of the strike, CP Rail locked out approximately 3,500 members of the Canadian Auto Workers Union who maintained train locomotives but had not joined the strikes.[21] At Canadian National, about half of the unionized work force, or 11,300 employ-

15. Kozak, *supra* note 12.
16. *Nation's Rail Workers Go On Strike*, World News Digest, Mar. 23, 1994, at 218 A3.
17. *Id.*
18. *Nation's Rail Workers Go On Strike, supra* note 16, at 218, A3.
19. Clyde H. Farnsworth, *Canadian Rail Strike Denting the Economy*. N.Y. Times, Mar. 21, 1995, at D6.
20. *Nation's Rail Workers Go On Strike, supra* note 16, at 218, A3.
21. *Id.*

ees, who maintained tracks and operated the trains, went on strike. The railroad responded by locking out the rest of its unionized workers.[22]

Across the country, a myriad of industries were affected by the rail shutdown. Farmers could not send grain; coal, minerals, ore, forestry products, heavy industrial components, some processed food, chemicals, and manufactured products piled up. Companies lost millions of dollars every day that the trains sat idle.[23]

The rail strike also had a decided impact on one industry in particular; the automobile industry. The auto industry depends on parts deliveries that are almost hourly.[24] Because of a shortage of parts, 6,200 Ford auto workers in Ontario were laid off or working part-time.[25]

A shortage of body panels for the Ford Crown Victoria and the Mercury Grand Marquis forced Ford to close a plant in St. Thomas Ontario, and furlough 2,500 workers. An additional 3,500 workers at Ford's mini-van plant in Oakville near Toronto were working half shifts, and 400 at an engine-casting plant in Windsor went home early.[26]

The potential for crippling Canada's economy led Prime Minister Chretian's Cabinet to authorize Labor Minister Lucienne Robillard to seek legislation to end the strike.[27] Although Mr. Chretian's liberals had more than enough votes to assure passage of back-to-work rail legislation, they ran into resistance from the Bloc Quebeçois.[28]

The Bloc Quebeçois, a Quebec separatist party that is also the official opposition in the House of Commons, refused consent to speed the legislative process, arguing that the law being sought was antilabor.[29] The Bloc stated it would only allow swift approval for the bill if Labor Minister Robillard would agree to substitute 60 days of mediation to settle the rail contracts, in place of the bill's proposal for forced arbitration. The Bloc's proposal was rejected by Prime Minister Chretian, who stated that the Canadian economy needed the rail dispute resolved immediately.[30]

The back-to-work legislation, Bill C-77, was approved by the House of Commons and the Senate, on March 26, in a Sunday Session.[31] It halted the nine day work stoppage and ordered 30,000 striking and locked-out railway workers back to work. The bill also set up three-member panels to try to mediate settlements in contract disputes involving job security and other issues. Moreover, included in the bill was a provision which stated that if no

22. As to the cost of the strike, Canadian National estimated that the company lost CN$9.5 million in revenue every day. CP Rail estimated that it lost about CN$1 million a day.
23. Ian Austen, Marilyn Storie and Mary Lamy, *Bloc Keeps its Grip on Railway Bill, Shutdown Puts Dent in Economy*, The Gazette (Montreal), Mar. 22, 1995, at A1.
24. Some 85 to 90 percent of the Big Three cars made in Canada are exported to the United States.
25. Farnsworth, *supra* note 19, at D6.
26. *Id.*
27. *Id.*
28. *Id.*
29. An agreement to fast-track the legislation would have allowed it to pass the House of Commons in a single day.
30. Austen, *supra* note 23, at A1.
31. *Law Halts Canadian Rail Strike*, N.Y Times, Mar. 27, 1995, at D4.

settlement agreement was reached after 70 days, arbitration would be used and the resulting settlement would be imposed upon the unions and the companies.[32]

Approximately 70 days after the strike, an agreement was reached between management and 40 percent of the unionized workers. The agreement, which gave the CP Rail Workers the job security they had walked out for, was made possible by the fact that the CP Rail, which had sworn that it could not afford to keep surplus workers on payroll, acquiesced to the demands of the 3,500 track maintenance employees.[33] As to the other 60 percent of the work force, the settlement agreement was imposed by Justice George Adams on the remaining unresolved contracts for Via and National railways.[34]

Economists estimated that the strike, which cost the Canadian economy between $3 billion and $5 billion, knocked at least a half percentage point off the country's gross domestic product this year.[35] The strike, however, has had another problematic side effect on the economy: Canada is now considered to be a less than reliable source of goods by the international community. The rail strike has cast doubts on Canada's ability to deliver goods on time.

This perception may have the ultimate effect of lessening foreign demand for Canadian manufactured goods which will in turn trickle down into lay-offs, erosion of consumer confidence, and a tightening of consumer purse strings; all of which will result in a sagging Canadian economy.

B. The Pull of a Slowing U.S. Economy

While trying to recover from the rail strike, Canada also had to deal with a slowdown in the economy of its largest customer — the United States. Canada's economy is heavily dependent on exports to the U.S. and when the U.S. experienced a slump, Canada's economy suffered right alongside the U.S. economy.[36]

As an example of Canada's dependency on the U.S., the modest recovery the Royal Bank of Canada sees in the second half of the year is almost entirely based on exports to the U.S. because Canada's exports to the U.S. are equal to 24 percent of its gross domestic product. Much of the growth that will remain in the Canadian economy hinges on the strength in the U.S. economy.[37]

Like Canada, the U.S. experienced a period of growth in 1994. This year, however, in the first three months, economic growth in the U.S. has sputtered to its slowest pace in one and a half years.[38] Real gross domestic product in the U.S. grew just 2.7 percent annualized in the first quarter, down from 5.1 percent in the fourth quarter of 1994.[39] Underlying consumer demand was weaker with final sales figures advancing only 1.8 percent, one-third the

32. *This Is No Way to Run a Railway*, The Gazette (Montreal), Mar. 28, 1995, at B2.
33. *CP Rail and Unions Reach Pacts for 40% of Workers*, Toronto Star, May 9, 1995, at D9.
34. *Id.*
35. Austen, *supra* note 23, at A1.
36. Greg Ip, *Canada: Economy Catches Chill from Slowdown in U.S.*, Fin. Post, Apr. 29, 1995, at P1.
37. *Canada: Canada's Economy Seen Slowing to Near Halt in 1995*, Reuter News Service, July 6, 1995, available in LEXIS, Nexis Library.
38. Ip, *supra* note 36, at P1.
39. *Id.*

1994 fourth quarter pace. Consequently, much of the first quarter production piled up as unsold inventories.[40]

Economists point to the fight between the Republican-controlled Congress and Democrat President Bill Clinton as one reason why the United States economy has slumped.[41] U.S. consumers are unsure whether taxes will be cut or raised. Therefore, U.S. purchasers are scaling back their spending until the fight over control of the economy has been won by either the Republicans in Congress or the President. Meanwhile, the potential U.S. recovery is bumping against capacity constraints that will limit growth and push up inflation.[42]

Abroad, economic developments are constraining appetites for U.S. goods. Of America's five biggest customers last year, the three largest — Canada, Japan, and Mexico— are all on the edge of or in recession, while growth is slowing in Britain and may be sputtering in Germany.[43]

One explanation of the lower consumption by Canada and Mexico is that the weak currencies in the two countries have raised the prices of U.S. goods. With the economies of Canada and Mexico slumping, consumers are tightening their purse strings and not spending money on higher priced U.S. goods.[44]

As to other foreign customers, U.S. exports are gaining ground in emerging Asia, but they are headed downward in Latin American nations such as Mexico and Argentina.[45] In April, the trade deficit for goods and services widened to $11.4 billion from $9.8 billion in March. Exports fell 1.3 percent partly reflecting a sharp drop in shipments to Mexico, while imports jumped 1 percent.[46]

On the domestic front, auto production in May fell 0.2 percent, the third consecutive decline. Output in manufacturing alone dipped 0.3 percent, the fourth drop in a row. Since February, when auto production peaked, factory output has fallen at an annual rate of 3.8 percent.[47] Along with the auto industry decline, housing construction fell 6.6 percent due in part to higher interest rates while housing starts dropped 1.3 percent in May to an annual rate of 1.24 million.[48] This drop nullified a small increase which was gained in April. New construction of single-family homes fell to the lowest level in more than two years while new home sales dropped to 7.85 percent in April, well down from more than 9 percent at the start of the year. The drop pushed the supply of finished but unsold homes to the highest level in nearly five years.[49]

40. *Id.*
41. Adam Mayers, *Why We're Adrift in Global Economy Huge Debt Means Canada Can't Control its Currency*, Toronto Star, Mar. 11, 1995, at C1.
42. Gene Koretz, *A Darkening U.S. Trade Outlook: Demand for Exports May Slacken*, BUS. WEEK, July 3, 1995, at 22.
43. *Id.*
44. Koretz, *supra* note 42, at 22.
45. *Id.*
46. James C. Cooper & Kathleen Madigan, *The Economic Slowdown: The Worst May Already Be Over*, BUS. WEEK, July 3, 1995, at 23.
47. *Id.*
48. Cooper, *supra* note 46, at 23.
49. *Id.*

In addressing the economic slump, the U.S. Federal Reserve Board has attempted to steer the economy to a modest recovery and has raised interest rates seven times in a year, through February 1, to slow expansion to about a 2.5 percent annual rate so that inflation will remain in check.[50]

For Canada, a possible worsening U.S. slowdown is bad news because it could undermine Canada's economy and fiscal plans. The current economic reports, however, suggest that the U.S. economy is surging upward. Nevertheless, opinion is split on whether the United States economy is "soft-landing" — slowing enough to contain inflation without entering into a recession — or just pausing before resuming its surge.[51]

The economic fate of Canada is precariously tied to a successful soft landing by the United States and, as the U.S. economy gains strength, the economic outlook for Canada will brighten. However, even if the U.S. economy experiences substantial growth, the Canadian economy may still suffer a prolonged slump until the fate of Quebec has been determined.

C. The Threatened Secession of Quebec

Quebec proposes to become a sovereign country through the democratic process. The accession to full sovereignty has been defined by the National Assembly as "the accession of Quebec to a position of exclusive jurisdiction, through its democratic institutions, to make laws and levy taxes in its territory and to act on the international scene for the making of agreements and treaties of any kind with other independent States and participating in various international organizations."[52]

An economic association with Canada would be maintained in order to preserve and further develop the free circulation of goods and services, of capital and of persons.[53] Additionally, Quebec would continue to adhere to the North American Free Trade Agreement and the General Agreement on Tariffs and Trade. The Canadian dollar would continue to be the legal currency of Quebec.[54]

A new constitution would be drafted following a procedure to be defined by the National Assembly. This new constitution would include a charter of human rights and freedoms and provide guarantees, in a manner consistent with Quebec's territorial integrity, to the English-speaking community and to the Aboriginal nations.[55] It would also provide for the decentralization of specific powers to local and regional authorities, together with sufficient resources.

Provisions are made as to the territory of a sovereign Quebec, Quebec citizenship and the continuity of treaties, international alliances and laws.[56] In this respect, the Government of Quebec would be authorized to take over, from the Government of Canada, all services

50. Ip, *supra* note 36, at P1.
51. *Id.*
52. *Here's the Text of Draft Bill on Sovereignty; The Countdown Begins,* The Gazette (Montreal), Dec. 7, 1994, at A6.
53. *Id.*
54. *Here's the Text of Draft Bill on Sovereignty; The Countdown Begins, supra* note 52, at A6.
55. *Id.*
56. *Id.*

and transfer payments currently provided to Quebec citizens by the Canadian government.[57]

As the above outlined proposal demonstrates, much thought has been given to the attainment of a sovereign Quebec. Even though the process of attaining an independent Quebec seems to have been well thought out, the recent referendum on secession was narrowly defeated. Consequently, the Canadian economy is still suffering. The uncertainty surrounding Quebec is continuing to impede potential foreign investment because foreign powers are waiting until the question of secession has been answered.[58]

While Canada's and Italy's debt and deficit problems are roughly equal, interest rates in Canada are three percentage points higher.[59] The interest rates are higher because, to offset the instability surrounding Quebec, Canada must raise interest rates to attract investors.[60]

Canada is not the only one suffering from the instability surrounding Quebec, the economy of Quebec is also suffering. Foreign powers are holding off on investing in Quebec until the question of independence has been answered. The loss of potential revenue is disastrous because the province of Quebec, after decades of alienating North America's English business community, has big economic problems.[61] The province's deficit is more than $5 billion a year and the unemployment rate is higher than other large provinces.[62]

Nevertheless, Quebec is the only province not to announce a credible plan for deficit control, which will probably result in a credit downgrade and higher debt-servicing costs later this year.[63] The cost to the rest of Canada for an economically inept Quebec is enormous. Quebec's deficits affect the credit rating of the entire country, leading some potential foreign lenders to believe that Canada is so debt ridden that it would not be able to pay back loans forwarded to it by other countries.[64]

IV. Helping Out the Canadian Economy

A. A Reduced Federal Budget

Induced by a lagging economy and the need to secure more foreign investors, Prime Minister Jean Chretian introduced the harshest budget Canada has seen in 40 years.[65] In a

57. *Id.*
58. Kathryn Leger, *Canada: 'UNCERTAINTY OVER SOVEREIGNTY HURTING ECONOMY' - DESMARIS*, Fin. Post, May 13, 1995, at P12.
59. *Parizeau's Dithering Holds a Whole Country Hostage*, Toronto Star, Mar. 8, 1995, at A21.
60. With a debt of $550 billion, a one percentage point rise in interest rates costs the government nearly $2 billion in additional debt charges.
61. David Yager, *Separatists' Dream Headed for Bankruptcy Nightmare*, Calgary Herald, May 5, 1995, at A5.
62. *Id.*
63. *Id.*
64. *Id.* The goal of separation has also led Quebec to resist plans that would serve to enhance the Canadian economy. National initiatives to improve the economy, like reducing interprovincial trade barriers, are not successful because the Quebec separatists refuse to attend the meetings.
65. Symonds, *supra* note 3, at 58.

bid to rebuild international confidence, Chretian has planned $18 billion in cuts over the next three years. The budget calls for reducing federal spending to 13.1 percent of Canada's gross domestic product—lower than at any time since 1951.[66]

An ambitious undertaking, the budget lays out a plan for nearly halving the budget deficit from its 1994 level, $40 billion, to $17.5 billion — or about 3 percent of gross domestic product in the fiscal year ending in March, 1997.[67]

To reach its goal, the budget reduces spending on everything from farm subsidies to unemployment insurance and could lead to the elimination of 45,000 government jobs. Many out of work Canadians will receive less unemployment compensation as unemployment insurance payments will be cut 10 percent on top of the 12 percent in 1994's budget.[68] The planned cuts will also touch the farming industry and the business community as aid to dairy farmers will be cut 30 percent, and subsidies to businesses will be slashed more than 60 percent.

The government expected the publicized budget reductions to stimulate the investment community. However, the announcement of the budget was met with only a modest market rally since it will take Canada years of cuts to lower the government debt.[69] Even with the proposed cuts, the net federal debt will increase by 19 percent, to $434 billion, and the annual interest tab alone will rise 33 percent.[70]

Because of the lackluster interest stimulated by the announcement of the budget, the Canadian government had to look for other ways to stimulate the economy.

B. Slashing Interest Rates

Both the central bank of Canada and the commercial banks were under pressure to reduce interest rates because of fears of a recession in Canada.[71] In response to the pressure, the Bank of Canada cut interest rates for six straight weeks up until July 5; at that point the Bank then raised its interest rates, despite a deepening economic slump.[72]

Amid cries for more cuts, the Bank held steady at a 7.05 percent interest rate and did not seem to be in a rush to lower rates.[73] An open question was then posed as to whether the Bank of Canada was waiting until after the U.S. Federal Reserve Bank announced whether it would cut interest rates.[74]

Many economists believed that if the Federal Reserve cut interest rates, then the Bank of Canada and the other commercial banks would swiftly follow suit.[75] All eyes quickly

66. *Id.*
67. *Id.*
68. *Id.*
69. *Id.*
70. *Id.*
71. Bud Jorgensen, *Canada: Pressure Growing to Ease Rates as Economy Falters*, Fin. Post, Jun. 6, 1995, at P1.
72. Eric Beauchesne, *Central Bank Not Rushing to Cut Rate*, Calgary Herald, Jul. 5, 1995, at C2.
73. Jorgensen, *supra* note 71, at P1.
74. *Id.*
75. *Id.*

turned to the next scheduled meeting of the U.S. Federal Reserve Board. The next scheduled U.S. Federal Reserve Board formal policy meeting was for July 5-6.[76]

On July 7, many Canadians got their wish for lower interest rates when the U.S. Federal Reserve Board announced that it would cut short-term interest by a quarter point.[77] The reduction in interest rates in the United States was immediately matched by the Bank of Canada and other commercial banks.[78]

The lower interest rates stimulated the Canadian economy by making it cheaper for citizens to buy cars and houses. Economists, however, warned that even though lowering interest rates was a move in the right direction toward helping the Canadian economy, the economy would not make a recovery until citizens saw signs of job security and started spending.[79]

V. The Current State of the Canadian Economy

Recent economic indicators have been mixed, however June's composite index[80] showed that the worst of the current slowdown may soon be over. Though the index fell 0.3 percent, it did pull out of a four-month slump.[81] Nationally, there were encouraging signs from housing and financial markets, segments of the composite index that generally improve several months ahead of the wider economy.[82]

Housing managed its smallest decline of 1995 in June due to a rebound in the construction of new homes and a pickup in sales of existing houses.[83] Along with the housing industry, financial markets experienced a modest recovery after interest rates fell.[84] Manufacturing shipments and retail sales have also shown good performance in the most recent data.[85] The changes led Statistics Canada to declare "that the worst of the economy's recent lethargy may soon end."[86]

Finance Minister Paul Martin said the changes mean a soft landing for the Canadian economy is within grasp.[87] Notwithstanding the improvements, the Canadian economy is still expected to show a decline in the second quarter but bounce back in the third.[88]

76. *Id.*
77. Beauchesne, *supra* note 72, at D7.
78. *Id.*
79. Rob Carrick, *Economy Needs Jumpstart*, Calgary Herald, June 27, 1995, at D1.
80. A composite index is an economic growth meter based on the performance of 10 sectors ranging from housing to business employment.
81. *Economy Rebounds*, Calgary Herald, July 18, 1995, at D3.
82. *Id.*
83. *Id.*
84. *Id.*
85. *Canada: Canada's Martin Says Soft Landing Within Grasp*, REUTER NEWS SERVICE, Jul. 25, 1995, at P1.
86. *Economy Rebounds*, *supra* note 81, at D3.
87. *Canada: Canada's Martin Says Soft Landing Within Grasp*, *supra* note 85, at P1.
88. *Id.* The state of the Canadian economy will not be officially known until the details on the Canadian gross domestic product for the second quarter are released in August.

VI. Conclusion

The economies of the member countries will have an effect on the success of the NAFTA. Stabilized economies help the trade agreement by ensuring that each country is able to sell roughly the same amount of goods, while fluctuations in the economies make it more difficult for a member to sell goods in the other countries.

For example, due to the weak economies in Mexico and Canada, the U.S. is exporting less goods to these countries because the citizens simply cannot afford them. Meanwhile, currency troubles are forcing Canada and Mexico to export more goods to the U.S. at cheaper prices, thereby exposing the United States to an influx of goods which results in a trade deficit.

Ultimately, the fluctuations in the currency casts doubt on the future success of the NAFTA as the United States Congress will not vote to remain part of a trade agreement from which it appears that the United States is gaining very little. If the economies of the member countries are not able to reach some sort of stability, it will be interesting to see if the NAFTA survives the fluctuations of the Canadian dollar and the Mexican peso.

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