Clinton ready to walk away from NAFTA, adviser warns: Tough talk on trade comes as Democrats turn their focus to Pennsylvania primary

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OTTAWA -- Hillary Clinton's threat to pull the United States out of NAFTA is a negotiating tactic to extract changes in the trade deal, but is a threat she'll make good on if she doesn't get her way, her top economic adviser says.

In comments after a speech near Parliament Hill yesterday, Gene Sperling clarified the position of the Democratic presidential candidate on the North American free-trade agreement - just weeks before she faces off against Barack Obama in Pennsylvania, where the next primary in the tight race will be held.

"She is very serious about this, and she's a tough leader, a tough negotiator. And she means what she says, and says what she means," Mr. Sperling said.

"She's made very clear that she would reopen and renegotiate the agreement to try to strengthen NAFTA. And she's said she is very confident that she would be successful," he explained. "When she was asked if that means she'd be willing to walk away if that was not successful, she said yes."

Ms. Clinton wants to incorporate labour and environmental standards into the core of the agreement. She also wants to renegotiate the power of the agreement to set up tribunals that force governments to change their policies if they harm the interests of investors.

Prime Minister Stephen Harper recently cautioned against opening up the deal for renegotiation, warning that Ottawa would come with a list of demands, too.

International Trade Minister David Emerson has suggested that privileged U.S. access to the Canadian energy supply may be at stake.

In an interview, Mr. Sperling said Ms. Clinton's messages on changing NAFTA were not meant for Canada or Mexico in particular, but for showing American workers that globalization can work for them.

"It is aimed at ensuring that our trade agreements and our engagement in the global economy is truly raising living standards and helping workers in the United States, as well in our trading partners," he said.

"We need these full reforms to make NAFTA what it should be, for American workers and American communities."

Ms. Clinton's take on NAFTA should play well among working-class Democrats in Pennsylvania. The state known for its steel production has seen its work force in that industry shrink from more than 500,000 in the 1970s to about 150,000 today, with more losses expected.

Although Mr. Obama has also vowed to reopen the trade deal, the force of that pledge was undermined when his senior economic adviser reportedly assured Canadian diplomats that the reality would be less severe than the rhetoric, a gaffe that contributed to his defeat in Ohio.

However, blaming trade deals for Pennsylvania's economic woes could backfire, drawing away support from upper-income knowledge workers. As The Washington Post has observed, Pennsylvania's economy is actually doing quite well, with unemployment at 4.9 per cent, thanks to burgeoning growth in robotics and other high-tech industries, which have brought 178,000 new jobs to Pennsylvania in the past five years.

Mr. Sperling, who has been working with Ms. Clinton on policy solutions to manage the economic downturn, also had some harsh criticism for the way the U.S. Federal Reserve had handled the subprime mortgage meltdown.

The Fed should have seen the warning signs of irresponsible borrowing and lending before the crisis exploded. Instead, it was "very slow on the draw" and did not take enough action against "mindless and mind-numbing economic transactions."

However, now that the crisis is unfolding, the Fed is being creative in finding ways - beyond interest-rate cuts - to instill confidence in markets and among Americans.

The Fed is also sending the right signal by indicating that monetary policy alone is not enough to manage the slowdown, and that's something Ms. Clinton believes too, Mr. Sperling said, pointing to proposals to keep precarious homeowners in their homes.