

**The North Star National**  
**February 2, 2010**

**Washington D.C.: A tale of two cities**  
**By Lawrence J. Haas**

For Washington, it is, with apologies to Dickens, “the best of times” and “the worst of times.”

It is a time of growing power at home but of shrinking influence abroad. They are two sides of the same coin, for they both reflect the economic and fiscal challenges that stand before our nation’s leaders.

At home, Washington seeks to rebuild the nation’s economy after the financial instability and deep recession of recent months by expanding its legislative and regulatory reach. For those who serve in the White House and Congress, and in executive departments and agencies, it is decidedly “the best of times.”

Abroad, however, the world looks beyond Washington for new sources of economic guidance and financial aid, lessening Washington’s influence from London to Tokyo, Buenos Aires to Johannesburg. For those who worry about America’s role in the world, it is assuredly “the worst of times.”

At home, signs of federal expansion abound.

The White House and Congress plan to re-regulate the financial sector in order to prevent a future collapse in financial markets due to the recklessness of lenders and investors. They also seek to significantly increase the federal role in health care in order to expand coverage and reduce costs, and to enhance the federal role in improving schools and expanding access to higher education.

Not surprisingly, those with a big stake in Washington’s assertiveness are increasingly reading the tea leaves and moving closer to the action. “The office market in Washington, D.C., is poised to topple New York as the nation’s most expensive,” the *Washington Post* reported last month, “reflecting the declining fortunes of the nation’s financial center and the government expansion under way in the U.S. capital.”

Last month, defense titan Northrop Grumman announced that it was moving its corporate headquarters from Los Angeles to the Washington area, and the German electronics and engineering behemoth Siemens said that it would locate a new president and chief executive for its U.S. business in Washington.

Those announcements followed the 2008 decisions of defense contractor SAIC to move its headquarters from San Diego to McLean, VA; of Hilton Hotels to move its corporate headquarters from Beverly Hills to Tysons Corner, VA; and of Volkswagen to move its corporate offices from Auburn Hills, MI, to Herndon, VA.

But, while Washington officialdom expands its reach at home and private interests respond accordingly, Washington's influence abroad is declining due to two inter-related problems – both of which are in America's hands to fix.

First, the recent financial crisis raised serious questions across the globe about the viability of U.S.-led free market capitalism.

Gone is the “Washington Consensus” of recent years – the view in major political and financial centers that U.S.-led free markets would naturally fuel rising living standards around the world and that rising living standards, in turn, would inevitably lead to greater human rights in repressive nations like China, Russia, and the Gulf States.

Replacing the “Washington Consensus” are growing calls for new models of economic organization to prevent further episodes of financial mayhem. Blamed for the economic chaos of 2008 that spread from Brussels to Beijing, America finds it harder to convince a skeptical world that, economically speaking, it knows best.

Second, Washington's exploding budget deficit will leave federal policymakers increasingly bereft of the military resources to keep the peace abroad, of the foreign assistance to build new alliances, and of the economic assistance to fuel development projects in under-developed regions.

While Washington scrounges for money, nations that are flush with funds will flex their muscles abroad. They include China, with its huge saving and surging trade surplus, and the Gulf States, whose oil drives the global economy.

It's all rather simple, as Stephen S. Cohen and J. Bradford DeLong write in their engaging new book about America's global indebtedness, *The End of Influence*:

“During World War I,” they write, “the world's long-reigning superpower, Great Britain, faced a disturbing development: Just when the nation really needed it, Britain no longer had the money. The money had shifted to the United States, where it accumulated for the next 60 years, and then began to drain away. Soon it will be gone.”

Ominously, they continue, “[t]he money is not likely to come back any time soon. The United States is now the world's biggest debtor, and there is no other debtor nation of consequence... Does it matter? Yes.”

For nearly a century, the United States shaped a world according to its own designs. Its participation in two world wars guaranteed victory for the forces of freedom and democracy, tolerance and human rights. Its economic might generated the funds for such projects as the Marshall Plan, which helped Europe rebound from devastation and set the stage for more than a half-century of Western prosperity.

Now, however, America's future as the world's leading power is uncertain. Washington must, through its financial reforms, reassure a global audience that the U.S. economic model remains

preferable to all others. And it must address its soaring deficit so that it once again has the resources that leadership requires.

If Washington fails to act wisely on those two fronts, America's power will diminish, replaced by that of nations that don't share our values and that would be only too happy to witness our demise.

That won't be good for the United States. Nor will it be good for those around the world who depend on America's leadership.