Thankfully, the campaign season is over. Governments can turn to serious business. They do so with decidedly changed political arithmetic. This is particularly so at the state level, with the Democrats now holding a majority of governorships (28) and picking up seven state legislatures. This is a total shift for governors from a 28-22 Republican majority to 28-22 Democratic.

New Series

The Rockefeller Institute will issue a series of reports, of which this is the first one, on consequences of this changed political landscape. Donald Boyd and Brian Stenson have reports in progress on the fiscal conditions and major programmatic challenges facing governors and state legislators. Among the topics envisioned are Medicaid, pensions and health benefits, education finance, infrastructure, and challenges in the global economy.

This paper presents a framework based on a theory of federalism as the jumping off point for thinking about how the changed political arithmetic in many states could affect domestic policies and finance.

This is a big moment for American domestic policy at a time when policy processes in Washington are still dominated by conservative Executive branch leadership with an understandable preoccupation with the war in Iraq and international issues.

The reason this federalism terrain is so important is that the politics of American federalism are not what they seem. The conventional view is that conservatives should and do favor the federal form with states in a strong role and liberals should and do favor national government action. This is not the right way to view American federalism.

On the whole and over time, it is reasonable for liberals to champion U.S. federalism (our national-state form) and conservatives to regard it as a power-grabbing “Leviathan” system that enhances and advances governmental growth, as does American Enterprise Institute scholar Michael Greve.¹

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Spitzer Federalism

Not long ago, Rep. Barney Frank (D-Mass.) was labeled as a states’ righter when he argued that states (with Massachusetts out front) should be the arbiters of gay marriage. Rep. Frank is not alone. Other liberals now see things this way — namely that states, particularly states with liberal politics, are the appropriate governments to take the lead on social, community, and environmental issues. In an article in the *Washington Monthly*, Paul Glastris asked the question: “Why shouldn’t the Democrats become the party of federalism?” In a similar vein, Eliot Spitzer, New York governor-elect, said in 2003 as the State’s Attorney General:

> Well, let me make a confession that will not surprise you. On January 1, 1999, when I got this office, I suddenly became an enormous fan of the new federalism. I suddenly said, “States’ rights are a beautiful thing.”

Federalism Cycles

The key to this theory of American federalism is political cycles of governmental activism, which have alternated between the national government and the states. A surge of liberal state initiatives in domestic affairs characterized the Republican-dominated 1880s. Likewise, in the 1920s, when the country was “Keeping Cool with Coolidge,” states were the source of progressive initiatives like unemployment insurance, public assistance, and workman’s compensation. James T. Patterson said states “preceded the federal government in regulating large corporations, establishing minimum labor standards, and stimulating economic development.” He added, “the most remarkable development in state government in the 1920s was the increase in spending.” Likewise, it was state initiatives that planted the seeds of Franklin D. Roosevelt’s New Deal.

The pattern of state innovation morphing into national policy continues. A major reason is what Martha Derthick calls “the end of southern exceptionalism.” The diffusion nationally of the civil rights revolution reduced the long-standing skepticism on the part of liberals about the worthiness of state governments.

What is distinctive about this theory is its emphasis on the upward momentum of these policy cycles: I posit that American federalism has exercised a steady and inexorable expansionist influence in the nation. Historically the picture is one of federalism impelling the growth of government-

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5 Ibid., p. 7.
tal power in domestic public affairs, growth which otherwise would not have occurred in the individualistic political culture of America.

**Balancing Federalism**

In essence, the balancing function of American federalism has become more powerful than its checking function. Textbooks that emphasize the role of federalism as a way to check governmental power are misleading. In the current cycle, it is liberals who are on the march in the states. The rise in domestic program activity since the mid-twentieth century supports this theory of federalism as a growth machine for government.

The elections on November 7 are very likely to reinforce this trend. The reports we will issue will examine the new fiscal and programmatic setting. Although recent reports suggest better times for state budgets, one needs to be cautious. There are consequential out-year pressures, for example, we will describe and assess in this series.

Remember, however, that not all domestic policy issues are fiscal. Indeed, it can be said that there are two types of domestic issues — those that involve money (taxing and spending) and those that don’t. This is an oversimplification, but it captures a point that needs to be part of this federalism framing of the contemporary federalism landscape post the 2006 elections. Wedge issues tend to be nonfiscal — abortion, same-sex marriage, stem cell research, immigration, teaching about evolution, sex education, end-of-life health care decisions, and the role of religion in government and in the funding and management of government programs. Environmental reforms have a similar role of being state-generated and often predominantly regulatory at times like the recent period, with conservatives dominant in Washington.

All things considered, much of the action in the domestic sector is typically and predominantly state-local. This election was not only a political earthquake for the states; it was a *policy* earthquake too. Because of the new energy, new perspectives, and new leaders in state capitals the mid-term elections are important not just for foreign policy — but for the home front as well.

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