



“Bush Federalism: Is there One, What is it, and How does it Differ?”

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Modern federalism, the American form of the "compound republic," was crafted in 1787 as a compromise¹. Its meaning and distinguishing characteristics are not easily summarized and have shifted over time.² In the main body of this paper we focus on one facet of the hybrid American federal form, the relationship between the national government and the states, with our purpose being to interpret in historical perspective the way President George W. Bush views this relationship.

A caveat needs to be entered before we plunge in, which is that while the devolutionary aspect of the American federal form has been a special focus of Republican leaders, it is of interest to Democratic leaders as well. The federal-state relationship in American history has been highlighted by many political leaders. Republicans especially favor this theme and the rhetoric that goes along with it. However, we do not mean to suggest that it is proprietary to them, just especially interesting for the way they behave in high policy making. This paper begins with Eisenhower. Most Republican presidents, Eisenhower to the present time, have enunciated “federalism” or “new federalism” programs that emphasize the role of state governments in the American governmental system.

¹ Martha Derthick, *Keeping the Compound Republic: Essays on American Federalism* (Washington, D.C., The Brookings Institution Press, 2001), especially pages 1-6.

² Nevertheless, we attempt a summary in the final section of this paper.

Dwight D. Eisenhower

On entering office in 1953, President Eisenhower appointed a Commission on Intergovernmental Relations, known by the name of its chairman, textile executive Meyer Kestnbaum. Establishing the Kestnbaum Commission, Eisenhower expressed his federalism theory, saying,

The present division of activities between Federal and state governments, including their local subdivisions, is the product of more than a century and a half of piecemeal and often haphazard growth. This growth in recent decades has proceeded at a speed defying order and efficiency. One program after another has been launched to meet emergencies and expanding public needs. Time has rarely been taken for thoughtful attention to the effects of these actions on the basic structure of our Federal-state system of Government.

Now there is need to review and assess, with prudence and foresight, the proper roles of the Federal, state and local governments. In many cases, especially within the past twenty years, the Federal Government has entered fields which, under our Constitution, are the primary responsibilities of state and local governments. This has tended to blur the responsibilities of local government. It has led to duplication and waste. It is time to relieve the people of the need to pay taxes on taxes.

In 1955 the Kestnbaum commission submitted its report, arguing for the federal idea with states assigned prominent substantive and legal standing.

As an instrument of positive government, it possesses — at least for a nation as large and diverse as ours — a clear advantage over a strongly centralized government. In helping to bolster the principle of consent; in facilitating wide participation in government; in furnishing training grounds for leaders; in maintaining the habit of local initiative; in providing laboratories for research and experimentation in the art of government; in fostering competition among lower levels of government; in serving as outlets for local grievances and for political aspirations — in all these and many other ways, the existence of many relatively independent and responsible governments strengthens rather than weakens our capacity for government. On the whole, therefore, the enduring values of our federal system fully warrant every effort to preserve and strengthen its essence.³

The Kestnbaum Commission was succeeded in July 1957 by the Joint Federal-State Action Committee. The committee's role was to provide liaison between the federal departments and agencies and the Council of State Governments on problems of common

³ The Commission on Intergovernmental Relations, *A Report to the President for Transmittal to the Congress* (Washington D.C., 1955). p.3.

interest to local, state, and federal governments and to offer specific reform plans. The Federal-State Action Committee made its report to the President in February 1960. In its report, the committee proposed a federalism swap, eliminating specific federal grants-in-aid to the states in exchange for turning over a compensating amount of federal revenue to the states. This proposal, which the administration endorsed and sent to the Congress, would have turned over telephone excise revenues to the states in exchange for the elimination of federal grants for vocational education and water pollution control. Although these grants were not large, at the time they were long-standing and conspicuous grants, especially the vocational education grant. But Congress balked; the deal was not consummated. Eisenhower's Joint Federal-State Action Committee was dissolved, and the Congress in 1959, at the end of the Eisenhower years, established the Advisory Commission on Intergovernmental Relations (ACIR), which continued in existence for 37 years. Somewhat incongruously, it was eliminated by the Republican-controlled 104th Congress in 1996, whose otherwise activist devolutionary federalism efforts are discussed below.

Ironically, federal grants in total increased threefold under Eisenhower, compared to the Truman post- New Deal period. This was seen by observers as bipartisan validation of the New Deal extension of federal grants and federal influence into a wide range of traditionally exclusive areas of state-local responsibility and expenditure.

Richard M. Nixon

Nixon's brand of what he called his "New Federalism" was intellectually similar to Eisenhower's in its rhetoric, but produced more substantial changes in the intergovernmental aid system. A central theme of the domestic program of the Nixon administration was decentralization. The phrasing about why this was needed, often used then and since by Democratic as well as Republican leaders, focused on "sorting out" governmental roles and responsibilities. The domestic policies of the federal government, so the theory goes, should be based on analyses of the appropriate roles of different levels of government; in areas that should be state-local responsibilities, federal policies should support and strengthen leadership at the state and community levels.

Revenue sharing was the keystone of Nixon's "New Federalism". The premise of this general fiscal support to states and localities was that opportunities for their flexible action and discretion had diminished because federally conceived and funded grant programs had "proliferated" or in another widely used phrase "grown exponentially" in state and local budgets. Under revenue sharing, \$80 billion in basically unrestricted federal aid was provided to state and local governments over eleven years to be used for purposes that the recipient jurisdictions determined to be of highest priority.

In addition to revenue sharing, the Nixon Administration won acceptance of block grants to consolidate existing categorical grants. At this time and in fact until its demise, the Advisory Commission on Intergovernmental Relations called for such reforms of the grant system, in 1969 (Nixon's first year in office) lamenting the..."hardening of the

categories [Walter Heller's term] in the immense and intricate Federal grant-in-aid system.”⁴ Interest in restructuring the relationship of the federal government and the states was bipartisan. Walter Heller, as chairman of President Johnson's Council of Economic Advisors, an originator of the revenue sharing idea, urged President Johnson to adopt it, and Johnson was reported at one point to be seriously considering doing so.

An incident in 1966 involving then-Senator Robert F. Kennedy underlines the point about federalism reform being bipartisan. At a Senate hearing in 1966 that Kennedy attended, Secretary of Commerce John T. Connor was describing a computer system under development for keeping track of all federal grant-in-aid programs to states and localities. Not impressed, Kennedy said he feared that when the mayor of a particular community pushed the button for the department's new computer system the answer would come out, “*Vote Republican.*”⁵

Gerald R. Ford

Sounding much like Nixon, President Gerald Ford in his 1976 State of the Union Address said,

We must strike a new balance in our system of federalism — a balance that favors greater responsibility and freedom for the leaders of our State and local government.

Last year I strongly recommended a 5-year extension of the existing revenue sharing legislation, which thus far has provided \$23 ½ billion to help State and local units of government solve problems at home. This program has been effective with decision-making transferred from the Federal Government to locally elected officials. Congress must act this year, or State and local units of government will have to drop programs or raise local taxes.

The next year, Ford said he was proud of having extended revenue sharing and two major block grants, both of which gestated under Nixon. One block grant was for community development and the other for manpower.

We brought about with the Congress, after much delay, the renewal of the general revenue sharing. We expanded community development and Federal manpower programs. We began a significant urban mass transit program. Federal programs today provide more funds for our States and local governments than ever before--\$70 billion for the current fiscal year. Through these programs and others that provide aid

⁴ One of us, Dick Nathan, was a member of the ACIR in the Clinton years up until the time of its demise.

⁵ See Richard P. Nathan *The Plot That Failed: Nixon and the Administrative Presidency* (New York, John Wiley & Sons, Inc, 1975), p.15.

directly to individuals, we have kept faith with our tradition of compassionate help for those who need it. As we begin our third century we can be proud of the progress that we have made in meeting human needs for all of our citizens.

A 1976 set of notes preserved in personal records sent from A. James Reichley, a presidential aide to Richard Cheney, Ford's chief of staff, captures the way Republican presidential advisors and speech writers viewed federalism as a political theme.

THE FEDERAL SYSTEM. The proper roles for federal, state, and local governments. The federal government's role in foreign policy and defense, in overall economic policy in research and development, in protection of civil liberties and civil rights, in maintenance of basic standards in human services. The states as instruments for regional approaches to problems such as transportation and environmental protection, as innovators in human service programs, as agents of balanced growth among rural, urban, and suburban areas, as primary administrators of criminal and civil justice. The local governments as detailed administrators of human service programs and preservers of a sense of community. The problem of financing -- the revenue sharing approach. The fallacy of routing too large a share of financing through the federal government. The federal system maintains national standards of justice and social development, provides flexible administration, meets special regional and local problems, protects pluralism, prevents government from becoming a threat to individual freedom.

In his own words, Ford showed that this was not just speechwriter's fare in an exchange he had at a Cabinet meeting with Vice President Nelson A. Rockefeller, January 29, 1975.

Vice President Rockefeller--Mr. President, this is a very serious political question. State and local governments will see this as a real blow and I fear for you politically. You must be able to offer them an alternative, a new program....

The President--Well Nelson, my personal philosophy is to move from categorical grants to block grants; and I am committed to that. It does give states and local governments more flexibility and perhaps we should make that view more widely known.

After Ford, President Jimmy Carter, even though he had been a governor, was not an advocate of a stronger state role. In fact, quite the opposite. It was under Carter that the one-third share of revenue sharing that went to state governments was rescinded. Carter's focus was on cities. Campaigning in 1976, he told the United States Conference of Mayors that if he became president they "would have a friend and ally in the White

House.” And they did. Twenty-one months into his presidency, after much high visibility planning and consultation, Carter announced his urban program, though little of it made its way into legislation.

Ronald Reagan

Ronald Reagan’s presidency is complicated to interpret in federalism terms. On the one hand, his FY 1982 federal budget (actually in the form of revisions of the budget that Jimmy Carter had previously submitted in 1980) made substantial cuts in federal grants-in-aid. The Reagan administration, like Nixon’s, created new block grants, but unlike Nixon’s they were smaller and traded off flexibility for cuts of up to 30 percent, whereas Nixon’s new block grants provided both flexibility and “sweeteners” in the form of added funds.

The net effect of Reagan’s grant-in-aid policies was that federal aid peaked in the early Reagan years. Reagan’s cuts, which were part of his supply-side economic program (cutting taxes and public spending in order to stimulate the private economy), were watered down in Congress. Some of them were later restored to combat the 1981-82 recession, and in some areas state and local governments themselves funded activities that the Reagan administration had identified as areas in which the federal role should be reduced because the primary responsibility was state and local. The cuts that were made and ratified by state-local action fell mainly on the poor, which budget director David Stockman said was not supposed to happen. The largest cut in 1981 was the elimination of the public service employment program, which in 1981 had very few supporters on either side of the aisle. Another of Reagan’s 1981 budget cuts was the elimination of the rest of Nixon’s revenue sharing program, the two-thirds share of these funds that went to local governments.

Despite his anti-Nixon stand on revenue sharing, Ronald Reagan as president was even more doctrinaire than Nixon when it came to his theory of federalism grounded in the Tenth Amendment to the U.S. Constitution that reserves to the states or to the people all powers not delegated to the national government. One of Reagan’s major goals throughout his public career was devolution to the states, i.e. to curtail the role of the federal government in domestic affairs and correspondingly enlarge the role and responsibilities of state governments. As governor of California, he argued strongly for such a shift. When he was seeking the Republican presidential nomination in 1976, he delivered a speech calling for a “systematic transfer of authority and resources to the states.” These views had not changed four years later in 1980 when he was elected president. In his inaugural address, he promised to curb federal powers and to “demand recognition of the distinction” between federal powers and “those reserved to the states.” News accounts at the time said that Reagan’s comments on federalism brought a cheer from the section where the governor’s were seated at the inaugural.

Thirty days after his inauguration, Ronald Reagan told a group of governors at the White House it “is a long-time dream of mine, this thing of balancing up the divisions of

government.” A few months later, he told state legislators that the federal system is like a masonry wall, and that what is needed is “a proper mix” of the bricks (i.e., the states) and the mortar (i.e., the federal government). “Unfortunately,” according to the president, “over the years many people have come to believe that Washington is the whole wall — a wall that, incidentally, leans, sags, and bulges under its own weight.”⁶

The high point of Reagan’s federalism activism as president was his announcement in 1982 of a swap of federal responsibilities, which resembled Eisenhower’s approach, but was much and bigger, making Eisenhower’s swap plan look puny by comparison. Reagan said that the federal government in 1984 “will assume full responsibility for the cost of the rapidly growing Medicaid program to go along with its existing responsibility for Medicare” (the health-care component of social security, which then as now if fully federal). As part of this “swap” (Reagan called it that), “the States will simultaneously take full responsibility for Aid to Families with dependent children (AFDC) and food stamps.”

But, the “swap and turn back” plan was not to be. Leaders of the National Governor’s Association (notably Ray Sheppach, the Executive Director) have lamented that this was their golden opportunity. Governors it is held should have gone all out to support the Reagan proposal. It might not have made a difference if they had, however. Despite intensive White House bargaining meetings with the various stakeholder groups, the “swap and turn back” plan had little traction. It was never even introduced in Congress, much less seriously considered as part of the FY 1984 federal Budget.

George H. W. Bush

Reagan’s vice president and successor, George H. W. Bush, sounded much like Reagan in his public pronouncements. He saw the federal idea as Jeffersonian.

So, let me say it plain and simple: I am a believer in the Jeffersonian tradition. I believe that innovation springs from these 50 laboratories of democracy. And I believe in the inherent wisdom and leadership of the States. Federalism must be a dynamic partnership if we're to end that age-old affliction of mankind: poverty -- poverty of knowledge and skills, poverty of opportunity, poverty of hope.⁷

Not that a president would be expected to do otherwise, Bush in a March 1989 speech to the National Conference of Legislators, in his own words, sounded convincing in unfurling the Republican federalism banner.

⁶ This section is based on Richard P. Nathan, Fred C. Doolittle, and Associates *Reagan and the States* (Princeton, Princeton University Press, 1987), p. 5-6

⁷ From Remarks at a White House Briefing for the American Legislative Exchange Council, April 27, 1990.

The resilience of the State governments in the eighties vindicates, in my view, the wisdom of the Founding Fathers and forever discredits those who would have Washington do it all. And let me assure you, I will preserve and protect a healthy balance, a sharing of power, between the States and Washington, because I fervently believe that federalism works. And I remember meetings that I had with Governors at the time of the campaign, discussing the social issues. And I learned more from the briefings -- this happened to be in a partisan context of a campaign -- but I learned more from the briefing by the Governors than any of the people here in Washington to whom I had access because I was Vice President. And I thought about why it made such a difference and why I learned so much from them. And it was because they're on the cutting edge; they are out there working with you all to solve the problems, to figure out what works, to make the changes. And so, that may sound elementary to some, but I think you must know what I mean. Governors have to deal in what works, and they get that from you all, with the representation you give in your districts.

A sub-theme, coming into wide prominence in this period, involved excessive federal mandates, as well as the familiar point about there being too many particularistic and intrusive grant-in-aid programs. This from President George H. W. Bush:

The national Governors, and I'm talking Democrats and Republicans, tell me that the major problem they have is being saddled with more and more mandates by some of these empowered committee chairmen in Washington that pass legislation after legislation or attempt to pass it that just tells the States how to do everything. And we've got to stand up against that.⁸

Eventually, Congress passed the Unfunded Mandate Relief Act of 1995, setting up a process for costing out mandates and renewing those above a certain threshold. According to President Clinton who signed it into law,

Today we are making history....We are recognizing that the pendulum had swung too far [toward Washington], and that we have to rely on the initiative, the creativity, the determination, and the decision-making of the people at the state and local level to carry much of the load for America as we move into the 21st century.⁹

⁸ From remarks at a fundraising dinner for Senator Christopher S. Bond (St. Louis, Missouri, November 13, 1991).

⁹ From remarks by the President at the Signing Ceremony for the Unfunded Mandate Reform Act of 1995 (March 22, 1995).

Discussion

While one must take political rhetoric with a grain of salt, there runs through the story of these five Republican presidencies a common strong hesitancy about centralizing responsibilities for domestic public purposes. Fair to say that Nixon put the most legislative muscle behind this idea and that Reagan stands out as the most doctrinaire on the subject. The Gerald Ford and George H. W. Bush presidencies can be characterized as “more of the same,” in both cases without as pronounced a programmatic focus.

The Clinton Years

For the most part, we have put Democratic presidents from this period off to one side. The story of Lyndon Johnson’s “Great Society” program and its Kennedy lineage has been told before and often. It is not an out-and-out story of centralizing government, but it has different historical and ideological roots in FDR’s New Deal, properly seen as involving a period of accretion in the national government’s role in domestic affairs. The Carter story is less clear with its urban rather than state focus, although Carter’s domestic legislative accomplishments were few and far between. The Clinton period, by contrast, is interesting, not only because it is closer to our purpose of examining George W. Bush’s federalism in historical context, but also because of the role of the 104th Congress with Republican majorities in both bodies elected in 1994. In part, the results of this mid-term election were a reaction to Clinton’s failed effort to create a national health program. The interesting point to make involves the way in which Clinton tacked to the right and to the states after 1994.

The Devolution Revolution of the 104th Congress

The Republican majority in the 104th Congress was decidedly not on the fence intellectually when it came to federalism and intergovernmental relations. Early in its first 100 days, Speaker Newt Gingrich and his House colleagues set about with a vengeance to create block grants out of entitlement programs and to turn powers and responsibilities over to the states. The following is from Speaker Gingrich.

And so, we set out with the governors to create block grants; to begin to reduce the Washington bureaucracy; to cut out the red tape; to get power back home. And the result is, according the Congressional Budget Office, that in the Balanced Budget Act, we’re taking 330 federal programs, involving \$125 billion a year, and we’re returning them to state and local government. Why? Because we believe state and local government does a better job of understanding local communities, than does some Washington bureaucrat in a high-rise office building, who’s never been in the state, never visited a community, and is making decisions based on paperwork done by another bureaucrat. This is why the Clinton health plan failed. This was our central critique of the Clinton health plan. You

design a rule-dominated system in America, it's guaranteed to fail. It's exactly the wrong model. . . . And I would just say to all of you, I think we're on the edge of an enormous breakthrough. . . . And I know that the Republican governors are absolutely one of the bedrocks on which we're building this whole thing. . . .¹⁰

The hard-charging "Let the states do it" tone of the "Newt Federalism" had one notable unanticipated effect. The 1996 national welfare reform act, which helped to cut welfare roles in half, resulted in large savings to the states under the Temporary Assistance for Needy Families (TANF) block grant. In effect, this windfall reinstated revenue sharing by providing freed-up flexible aid that could be used for a wide range of often new and innovative purposes as welfare payments declined. However, later on, as the welfare roles crept back up and the economy softened, the mood in the late nineties about this money being available for innovative purposes dissipated. It would be a mistake, too, to attribute to the 104th Congress an unwavering preference for state action. In a number of areas where business interests were at stake, Congressional leaders were less dug in, for example insurance regulation and internet taxation.

Summing up, it is noteworthy that in the 1980's we begin to see a shift towards a fiscally-driven federalism theory under Reagan and also under the "Newt Federalism" of the 104th Congress. Among "safety net" programs, Gingrich's troops proposed block granting Medicaid, by then the granddaddy of all grants, which it will be recalled Reagan was willing to countenance being made a federal government responsibility. Clinton resisted the sweeping "block-grantism" of the 104th Congress, which can be seen as part of a "devolution revolution" in terms of the legislative efforts made and the impact especially of the 1996 welfare reform act on the role of state governments in social policy.

Picking up the fiscal signals, Clinton righted himself (this is the correct term) and moved to more modest, centrist and incremental domestic public policies in 1996 in his second term. In particular, his decision in 1996 to sign the Republican national welfare law, advertised as a block grant, puts Clinton in a position to be classified as a pragmatist (a good American political idea) in federalism terms. In one important respect, the Clinton administration was pro-state, namely, in the extension of waivers providing states with greater flexibility of action in the form of extra and special authority. This was particularly notable for the Medicaid program as it increasingly became the pressure point in intergovernmental finances. It is in this setting that we turn now to the federalism words and deeds of the incumbent: What about his federalism policies?

George W. Bush

Search as hard as we can, it is difficult to find presidential statements by George W. Bush that have the same federalism lilt as his modern Republican predecessors. As a

¹⁰ This section is based on *Rockefeller Institute Bulletin: The Devolution Revolution* (Albany, Rockefeller Institute Press, 1996), p. 22.

governor, he toed the line, but as president his record is hard to interpret in these terms. It is the Bush II administration's focus on fiscal exigencies and not on federalism reforms that underlie the choices the administration is making that influence federal-state relations. Both through budgetary actions and regulatory changes the administration's brand of federalism is most of all about restraining the size and scope of domestic public spending. Under the budget resolution approved by Congress in April 2003, overall domestic discretionary programs would be cut by \$168 billion over the next ten years compared to the Congressional Budget Office baseline.

Some of the ways this is proposed to be done are below the radar. The biggest is the effort to reign in Medicaid spending, mentioned several times now as increasingly the focal point of federal-state intergovernmental finances. Medicaid, which now accounts for 65% of all federal aid to states and localities, pays for nursing homes, institutional care for the disabled, and acute care for needy families and children. It accounts for one-third of all births, aids one quarter of all children, and pays for two thirds of all long-term care for the elderly and disabled. This is the 800-pound gorilla of federal aid, which began innocently almost as an afterthought under Lyndon Johnson's Great Society. It is the biggest item in many state budgets, depending on how you count education. Total Medicaid spending could exceed defense spending in the relatively near future, which is why there has been such intense bargaining about how to structure its finances and stem its growth.¹¹

Although the Bush-II administration does not use the term "block grants," its proposal to cap several major domestic programs — Medicaid, federal aid for low-income housing,¹² child welfare (mostly funding for foster care),¹³ plus the proposal to allow the states to take over and redistribute the funding for the Head Start program,¹⁴ are very much in the tradition and form of what have typically been labeled block grants. These proposals can be seen as having the dual purpose of reigning in spending and at the same time giving states more flexibility. Another effort to change federalism in the direction just indicated is encompassed in the administration's proposal for a "Super Waiver" as part of legislation to reauthorize the 1996 national welfare reform act. The Super Waiver as contained in proposed reauthorization legislation would permit states to manipulate and reprogram funding for multiple social programs.

¹¹ The Administration's proposed Medicaid reform, which the governors nixed, would have provided increased aid in the short term in exchange for placing a cap on future allocations over a ten-year phase-in period for states that chose this option.

¹² Mimicking TANF, the Bush administration would convert the Section 8 housing-voucher program to HANF, Housing Assistance for Needy Families, and regulatory barriers would be reduced.

¹³ Flexible grants would be provided with a "strong emphasis on prevention" according to the administration.

¹⁴ Governors would be offered the opportunity to integrate preschool programs with Head Start for the state or a region within the state under the administration's proposed "state-option" approach.

These proposed policy changes and realignments, along with the administration's federal tax cuts and stringent budget proposals for domestic programs, come at a difficult time for state governments. According to Donald Boyd,

The fiscal crisis facing states is far worse than the condition of the nation's economy. The national recession was relatively mild, but state tax revenue has been hit hard. Even by the standard of the two previous recessions, in the early 1990s and 1980s, state revenues have declined dramatically. Fiscal year 2002's astonishing 7.4 percent decline in real per-capita tax revenue was more than twice as steep as state tax revenue declines that accompanied the 1990-91 and 1980-82 recessions. The main reason tax revenue fell so sharply relative to the economy is that revenue had been propped up in the late 1990s by unsustainable forces, especially the run-up in the stock market, which have unraveled rapidly in recent years. The result has been that nearly every state faced budget gaps beginning in fiscal year 2002, and these gaps grew in fiscal years 2003 and 2004.¹⁵

The Rockefeller Institute has been publishing data on state revenue for over a decade. This is the worst news for the states that we have ever had to report. Serious fiscal problems are widespread, affecting the majority of the states — big and small, liberal and conservative. The drop in state revenue adds leverage to the federal effort to ratchet down state and local domestic spending, which in addition to stimulating parallel state and local spending cuts (although we can't measure them yet) has had the effect of spurring increases in state and local taxes.¹⁶

Taken as a whole, the Bush domestic program reflects a fiscally driven view of domestic programs, focused on reducing the size and scope of the domestic public sector. An indication that the federalism idea is not as consequential in the administration's policies as are other purposes is shown by its position about the federal role in education. The "Leave No Child Behind" Act, advocating testing and pushing the states to adopt strong measures to do so, has been advanced in assertive, and sometimes highhanded ways despite the concerns of state officials that they are not being listened to and properly treated.

In sum and in short, there are two themes of past Republican presidents, at least in their rhetoric, that do not have as much traction in Bush II domestic policy-making. One is the idea of rationalization, often discussed in terms of "sorting out" domestic programs

¹⁵ Donald Boyd, *The Current State Fiscal Crisis and its Aftermath*, Prepared for Kaiser Commission on Medicaid and the Uninsured, Kaiser Family Foundation, September 2003. Available through the Rockefeller Institute website at www.rockinst.org.

¹⁶ See Nicholas W. Jenny, "Tax Increase Shore Up State Revenue," *State Revenue Report*, Sept. 2003, N. 53, The Nelson A. Rockefeller Institute of Government. Available through the Rockefeller Institute website www.rockinst.org.

and functions, a theme that Democrats, too, have embraced.¹⁷ A second and corollary theme is the idea of reciprocity, that if we (the feds) give you money then you (the states) should take over a function as evidenced in Eisenhower’s Action Committee proposal and Reagan’s bolder “swap and turn back” plan. But there is more to be said than this. There is a decided difference in tone of this Republican presidency. In the case of education, and the same applies to homeland security, the partnership theme of past periods has been jettisoned in favor of a leadership role for national government agencies and officials. Where it really counts, the Bush II administration has paid very little attention to the niceties of federalism and the role of governors and state governments.

A Downbeat Time for States

Summing up this history, there was an ebullient period for states in national domestic policy-making following the Great Society and lasting into the 1980s.¹⁸ The Republican attitude, notably Nixon’s in most periods of his presidency, seemed to be — “*We can solve the nation’s social problems — doing it our way, relying on states and localities.*” Reagan’s position is complicated in these terms. The Reagan administration was more fiscally conservative and at the same time propounded a doctrinaire and traditionalist view of federalism. It represents the turning point for states. Right from the start in the FY 1982 budget, the Reagan administration’s cuts in grants-in-aid overshadowed the administration’s “swap and turn back” plan, which was never pushed very hard.¹⁹ The early eighties was the peak in relative economic terms for federal aid.

Under George W. Bush, the coming together of his conservative fiscal policies, hemorrhaging state coffers, and a downbeat mood on domestic and social issues in the public discourse have put state governments (local governments and nonprofit organizations as well) in a difficult position. State and local governments have been forced to retrench — to raise revenues and cut expenditures.

Our question about the George W. Bush version of federalism, therefore, is best answered by characterizing Bush II federalism as involving a willingness to give states more flexibility (although not in the field of elementary and secondary education and homeland security) in relation to, and as part and parcel of, efforts to reduce the size and scope of the domestic public sector. Compared to earlier modern Republican presidents,

¹⁷ See, for example, an influential book by Alice M Rivlin, *Reviving the American Dream: The Economy, the States and the Federal Government* (Washington, D.C., The Brookings Institution, 1992).

¹⁸ Five factors underlay the rising role of the states in the 1980s: (1) the budget cutting and devolutionary policies of the Reagan administration, (2) the modernization movement in state government that began in the 1960s, (3) the Supreme Court decision in *Baker v. Carr*, that reduced the rural-urban imbalance in state legislature, (4) what Martha Derthick calls “the end of Southern exceptionalism” brought about by the civil rights revolution, and (5) the strong economic recovery of the early 1980s. See also Jon C. Teaford, *The Rise of the States: Evolution of American State Government* (Baltimore, MD, The Johns Hopkins University Press, 2002).

¹⁹ In the White House Rich Williamson who was spearheading this effort was beaten up and beaten down by the President Reagan’s conservative advisors.

there is a decided lack of interest in the kinds of federalism flourishes and structural reforms they advanced. Maybe they weren't fully serious about some of them. Nevertheless, the tone was different. By comparison, George W. Bush's theory of federalism is tepid.

Does it Matter?

We come now to the final question: Does it matter that the shifting intergovernmental bargain of American federalism moves in a particular direction? To answer this question, we need to stretch the canvas broadly. Federalism is more than a governmental system that calibrates programmatic and fiscal relationships for different functional areas of government between central and regional authorities, although that is an important aspect of the federal idea.

Modern federalism, invented in Philadelphia in 1787, provides that citizens are citizens of both the central and state governments. The basic objective is to reconcile unity and diversity. There is agreement among experts that a functioning federal system must have a democratic, pluralist political form. Otherwise, the idea of self-expression by the regional governments would not be meaningful. Most experts also agree that an effective federal form needs to operate under a written constitution that stipulates the relationship and responsibilities of the central and state governments, the role of the states in the amendatory process, and the rights of citizens. Advocates of federalism see it as a way to protect against central tyranny, increase citizen participation, encourage innovation (the states as "laboratories"), and strengthen community identity. Opponents of the federal form criticize its slowness to respond to new challenges, its perceived inability to take advantage of technological advances, and the cumbersome nature of its governmental decision-making and implementation processes.

Among political scientists one school of thought stresses federalism's increasingly amorphous nature and operational complexity. U.S. political scientist Morton Grodzins, a leading exponent of this position, likened modern federalism to a marble cake, rather than a layer cake, characterized by constantly shifting, swirling patterns of functions, finances, and administrative arrangements. Many members of the Grodzins school describe federalism as inevitably moving toward a centralized governmental system. Proponents of this view cite the information revolution and globalization as major centralizing forces. The opposite view is argued too: In the current period in which centrifugal forces are strong, political identity matters. The federal form encourages participation in state and local governmental processes at the same time that it facilitates diversity and innovation in governmental goals and policies. According to this view, federalism has both intrinsic and representational value to a society, a kind of glue that ties people together despite competing claims on their interests and activities.

Federal systems should be judged by examining the role of their middle-level or regional governments. This includes their role in major functional areas of domestic government; their political culture and history; their legal, electoral and taxing powers;

and their role in determining the form, functions, and finances of local units. The playing out of U.S. presidential theories of federalism and intergovernmental relations as described in this paper especially influences the first criterion — the character of the policy, financial, and administrative role of states in major functional areas. The extent to which the American states have responsibility for setting domestic policies, financing their execution and carrying them out is substantially affected by what happens to grants-in-aid and intergovernmental fiscal relationships. It is in this way that presidential words and deeds under the banner of different theories of federalism, along with their interpretation by the courts, are an important indicator of the character and condition of American federalism.

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