Federalism always has been one of the most significant features of the American constitutional system. The division of authority between the states and federal government is a constantly evolving system of dynamic tension. With the recent changes in our nation’s capital, the state-federal relationship is once again at the center of policy debates. The future will likely see both cooperation and conflict. That’s nothing new.

In drafting the U.S. Constitution, which was ratified by state legislatures, the framers anticipated states would be the principal policymakers in a system that granted limited power to the federal government. Over the course of our republic, however, Congress and the federal executive branch have often ignored state concerns and enacted laws and rules that pre-empt state laws, put undue burdens on state finances, or are difficult and burdensome to implement.

Before the Civil War, states generally dominated American federalism. But a stronger national government emerged after the war and grew with the advent of the income tax, World Wars I and II, and the Great Depression.

With the modernization of state legislatures in the 1960s and ‘70s, a new balance in our federal system developed. The 1960s saw the creation of Medicaid, a shared state-federal program. And in the ‘70s, general revenue sharing provided unrestricted federal financial assistance to states and localities. This experiment with “no-strings” and noncategorical sharing of federal revenues did not have a long life, however.

The last 40 years have been a period of more balanced federalism. State governments, generally, have been fiscally healthy and active as the country’s creative laboratories and public policy innovators. Creative environmental and energy legislation, novel education reform and inventive health policy all flowed from the states.

But the Great Recession, which hit at the end of 2007, was an enormous challenge to healthy federalism and the ability of states to carry out their role as partners in the federal system. Nearly all major domestic policy programs—Medicaid, family assistance, transportation and education—are managed by states or localities. During the recession, fiscal shortfalls and constitutional requirements for balanced budgets limited states’ ability to maintain these traditional funding priorities.

At the same time, the ability of the federal government to deficit spend, particularly as a counter to recession, allowed it to expand its initiatives and direct state policy when it was very difficult for states to resist. This only added to the growth in the percentage of federal funds in state budgets that has been occurring over the last 50 years.

Federal funds to expand Medicaid have driven increases in overall state spending. In fact, the only category of state spending that has increased as a percentage of the total in the past 10 years is Medicaid. It currently accounts for 29 percent of state budgets and grows every year. How the new administration and Congress will address this big-ticket item remains to be seen. But current debate centers on devolving power back to the states, giving them more autonomy, flexibility and control over Medicaid—as well as more of the costs—and NCSL will continue to monitor the discussions.

As the federal deficit grows, the search for ways to reduce spending or establish new revenue sources will increase. Both could impact state budgets. Federal tax changes now under discussion could have major effects on traditional state revenue sources, yet the voice of the states is often missing from congressional debates.

NCSL is here to ensure that states’ interests and concerns are heard and included in the national dialogue. The creative tension in federalism can only be maintained by avoiding overreaching federal pre-emption and mandates.

If states are to be the laboratories of democracy, they need the freedom, power and flexibility to innovate, create and adapt policies that best meet the needs of their citizens.