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DAVID OSBORNE

From *Laboratories of Democracy*

Earlier in the twentieth century, Supreme Court Justice Louis Brandeis called state governments "laboratories of democracy." States were where new policy ideas were first developed and tried out. Yet, after President Franklin Roosevelt's New Deal in the 1930s, state governments hardly seemed to be where the action was in government. A strong national government dominated American politics—until recently. Public policy specialist David Osborne looks at the way reinvigorated state governments have taken the lead in developing innovative ideas today. In this excerpt, he focuses on former Arizona governor—later Clinton administration Interior secretary—Bruce Babbitt, who transformed Arizona's old politics-as-usual state government into a modern, forward-looking one. Currently, many states utilize Babbitt's "new paradigm" in their business and educational development.

FRANKLIN ROOSEVELT once said of the New Deal, "Practically all the things we've done in the federal government are like things Al Smith did as governor of New York." There was surprising honesty in Roosevelt's remark, though he might have credited other states as well. Many of FDR's initiatives—including unemployment compensation, massive public works programs, deposit insurance, and social security—were modeled on successful state programs. The groundwork for much of the New Deal social agenda was laid in the states during the Progressive Era.

A similar process is under way today, particularly in the economic arena. The 1980s have been a decade of enormous innovation at the state level. For those unfamiliar with state politics—and given the media's relentless focus on Washington, that includes most Americans—the specifics are often startling. While the Reagan administration was denouncing government intervention in the marketplace, governors of both parties were embracing an unprecedented role as economic activists. Over the past decade, they have created well over 100 public investment funds, to make loans to and investments in businesses. Half the states have set up public venture capital funds; others have invested public money in the

creation of private financial institutions. At least 40 states have created programs to stimulate technological innovation, which now number at least 200. Dozens of states have overhauled their public education systems. Tripartite business-labor-government boards have sprung up, often with the purpose of financing local committees dedicated to restructuring labor-management relations. A few states have even launched cooperative efforts with management and labor to revitalize regional industries.

Why this sudden burst of innovation at the state level? Just 25 years ago, state governments were widely regarded as the enemies of change, their resistance symbolized by George Wallace in the schoolhouse door.* The answer has to do with the profound and wrenching economic transition the United States has experienced over the past two decades. In the 1980s, a fundamentally new economy has been born. With it has come a series of new problems, new opportunities, and new challenges. In the states, government has responded.

The notion that America has left the industrial era behind is now commonplace. Some call the new age the "postindustrial era," some the "information age," others the "era of human capital." But most agree that the fundamental organization of the American and international economies that prevailed for three decades after World War II has changed. The United States has evolved from an industrial economy built upon assembly-line manufacturing in large, stable firms to a rapidly changing, knowledge-intensive economy built upon technological innovation.

The most obvious symptoms of this transition are idle factories, dislocated workers, and depressed manufacturing regions. Less obvious are the problems that inhibit our ability to innovate: a poorly educated and trained work force; adversarial relations between labor and management; inadequate supplies of risk capital; and corporate institutions that lag behind their foreign competitors in the speed with which they commercialize the fruits of their research, adopt new production technologies, and exploit foreign markets.

Jimmy Carter was elected just as the public began to sense that something had gone wrong with the American economy. Like other national politicians of his day, he only dimly perceived the emerging realities of the new economy. Ronald Reagan owed his election to the deepening

*George Wallace was the governor of Alabama in 1963, when the federal government forced the state to integrate its schools following the Supreme Court's 1954 *Brown v. Board of Education* decision. President Kennedy mobilized the Alabama National Guard, despite the governor's defiance of the desegregation decree. Governor Wallace gave a speech against desegregation at the schoolhouse door before the guard ushered African-American students into the building.—EDS.

economic crisis, but his solution was to reach back to the free-market myths of the preindustrial era. He had the luxury to do so because he governed an enormously diverse nation, in which rapid growth along both coasts balanced the pain experienced in the industrial and agricultural heartland.

Most governors have not had that luxury. When unemployment approached 13 percent in Massachusetts, or 15 percent in Pennsylvania, or 18 percent in Michigan, governors had to respond. They could not afford to wait for the next recovery, or to evoke the nostrums of free-market theory.

The same dynamic occurred during the last great economic transformation: the birth of our industrial economy. The Progressive movement, which originated at the state and local level, grew up in response to the new problems created by rapid industrialization: the explosion of the cities, the emergence of massive corporate trusts, the growth of urban political machines, the exploitation of industrial labor.* Many Progressive reforms introduced in the cities or states were gradually institutionalized at the federal level—culminating in the New Deal.

This reality led Supreme Court Justice Louis Brandeis to coin his famous phrase, "laboratories of democracy." One of America's leading Progressive activists during the early decades of the twentieth century, Brandeis viewed the states as laboratories in which the Progressives could experiment with new solutions to social and economic problems. Those that worked could be applied nationally; those that failed could be discarded.

Brandeis's phrase captured the peculiar, pragmatic genius of the federal system. As one approach to government—one political paradigm—wears thin, its successor is molded in the states, piece by piece. The process has little to do with ideology and everything to do with trial-and-error, seat-of-the-pants pragmatism. Part of the beauty, as Brandeis pointed out, is that new ideas can be tested on a limited scale—to see if they work, and to see if they sell—before they are imposed on the entire nation.

Today, at both the state and local levels, we are in the midst of a new progressive era. Just as the state and local Progressivism of Brandeis's day

*Progressivism was a movement that developed during the first two decades of the twentieth century advocating reform at all levels of government. Well-known as progressives were Governor Robert La Follette of Wisconsin and President Theodore Roosevelt, who ran as a Progressive in the 1912 presidential election. Progressives wanted to clean up urban government, throw out party bosses, and place more power in the hands of ordinary voters through referendum and the direct primary. In journalism, the Muckrakers uncovered political corruption, exploitative working conditions, corporate greed, and consumer abuse as targets for Progressive reform.—EDS.

foreshadowed the New Deal, the state and local experimentation of the 1980s may foreshadow a new national agenda. . . .

Life in Arizona is something few Americans raised east of the Mississippi would recognize. Two-thirds of all state residents were born elsewhere. Half arrived in the last fifteen years. Every fall a third of the students in the typical Phoenix school district are new. In 1986, *61* new shopping centers were completed or under way in the Phoenix metropolitan area.

In the mid-1980s, Phoenix was the nation's fastest growing city; Arizona one of its fastest growing states. At the current pace, the Phoenix area will double its population of 1.9 million—nearly half the state total—within 15 years. Every year this mushrooming metropolis—an endless expanse of one-story, suburban-style homes and shopping centers—gobbles up thousands of acres of desert in a race for the horizon. At 400 square miles, it now covers more ground than New York City.

This explosive growth has transformed a dusty, sparsely populated frontier state into a land of the modern, Sunbelt metropolis. Arizona was the last of the contiguous 48 states to join the union, in 1912. By 1940, it had only 500,000 people, spread out in small, desert towns and over vast Indian reservations. Phoenix had only 65,000 people. But World War II brought military bases and defense plants, and the postwar boom brought air conditioning and air travel. Suddenly Arizona's location and climate were advantages, rather than disadvantages. The defense contractors, aerospace companies, and electronics manufacturers poured in, bringing an army of young engineers and technicians with their wives and their children. This was the Eisenhower generation—raised during the depression, hardened by World War II, anxious for the security of a job, a home, and a future for their children. With their crew cuts and their conservatism, they transformed Arizona from a sleepy, almost southern Democratic state into a bastion of Sunbelt Republicanism.

Before the Republican takeover in the 1950s, the farmers, the mining companies, and the bankers had run the state. Copper, cotton, and cattle were king. "It used to be that there were five or six men who would sit around a luncheon table at the old Arizona Club and pretty much decide on how things were going to be," says Jack Pfister, general manager of the Salt River Project, the state's largest water and power utility. "Some legislators were said to wear a copper collar."

At first, the new suburban middle class did not change this arrangement a great deal. Real estate developers, the new millionaires on the block, joined the club. But even as the Republicans cemented their control in the 1960s, rural legislators held onto the reins of seniority—and thus power. State government was tiny, the governor a figurehead. And the new suburbanites embraced the frontier ethos in which the old Arizona had taken such pride. Ignoring the fact that without major government investments—in military bases, defense plants, and dams—Arizona would still be a rural backwater, they believed their newfound prosperity was the product of untrammeled free enterprise. Beginning in 1952, they voted Republican in every presidential election. They had little truck with Washington. In the 1950s, Arizona declined to participate in the federal Interstate Highway System; in the 1960s, it turned down medicaid. As local people still say with a hint of pride, Arizona is the last preserve of the lone gun slinger.

The combination of explosive growth and a frontier mentality created problems very different from those encountered by the other states profiled in this book. "In the East, you have old cities, old infrastructure, and a fight for economic survival," says Republican Senator Anne Lindemann. "Here, we're trying to control the growth as best we can."

This process was not without its lessons for the rest of the nation, however. Because Arizona is a desert, with a fragile ecosystem, its rapid growth threw into sharp relief the most serious environmental problems of the postindustrial era—particularly those involving water and toxic chemicals. And because the political climate makes public resources so scarce, the struggle to cope with the social problems created by a modern economy stimulated a degree of creativity rarely seen in a conservative state.

The task of dragging Arizona into the modern era fell to Bruce Babbitt, who by the time he left office in 1987 had changed the very nature of the governorship. A lanky, scholarly type whose habitual slouch and thoughtful manner hide an enormous drive, Babbitt looks like a cross between Donald Sutherland and Tom Poston. He has sandy hair, a lined face that has begun to sag with the wear of 14 years in politics, and large, pale eyes that bulge out from behind his eyebrows when he scowls. In a small group, when he is in his natural, analytic mode, Babbitt can be brilliant. On a dais, when he tries to sound like a politician, his body stiffens, his eyes bulge, and he does a good imitation of Don Knotts.

Despite his weakness as a public speaker, Babbitt captivated the Arizona electorate. He was elected in 1978 with 52 percent of the vote, re-elected four years later, during a recession, with 62 percent. Summing up the Babbitt years, the *Arizona Republic*, a conservative newspaper, called him the "take-charge governor." "He is without a doubt the smartest, quickest elected official I have ever met," an environmental activist told me, in a comment echoed by many others. "Babbitt plays it on the precipice," added a state senator. "He is constantly pushing this state forward, and he has an uncanny ability to pull it off." . . .

Traditionally, the governor's office in Arizona had been extremely weak. Arizona was perhaps the only state in the union in which a governor would consider the ambassadorship to Argentina a step up. State government was run by a small group of senior legislators and their staffs, who brought out the governor for ceremonial occasions. The notion that a governor might try to set an agenda for the state, or dare to veto a bill, never crossed most politicians' minds.

Babbitt immediately set out to change that. Six weeks into his term he vetoed two bills on the same day—then timed his veto message for the evening news, knocking the wind out of a planned override. The legislature reacted with shock. "Our idea of an activist governor was one who met with us once a month to seek our advice," said Alfredo Gutierrez. "This guy called us daily to tell us what he wanted to do."

Babbitt vetoed 21 bills in 1979, 30 more over the next two years. His total of 114 vetoes in nine years was more than double the record set by Arizona's first governor, who served for 13 years. "My business friends used to complain that we had a weak governor," says Jack Pfister. "After Babbitt was in there about two or three years, you never heard anybody complain about that again. What he demonstrated was that it was more the individual than the structure of the office itself." . . .

In Arizona, the economic problem has been too much growth, not too little. Ever since Motorola built an R&D center for military electronics in Phoenix in 1948, high-tech manufacturers have flocked to the state. They have been lured—many of them from nearby California—by the cheap land, the cheap labor, and the desert climate, all of which make Arizona perfect for manufacturing precision electronics. As time passed, the only problems they experienced arose from the state's failure to keep up with their growth.

The most pressing problem, aside from water, was the higher education system. Arizona State University, the major school in the Phoenix area, was known for big-time sports and big-time parties. *Playboy* once named it the nation's number one party school. Its engineering and business schools were second rate. As the high-tech industries boomed, they began having trouble recruiting engineers—many of whom wanted to update their education every three to five years to remain on top of their fields—because of the poor reputation of ASU's engineering school. In 1978, industry leaders created an advisory committee to work with the school and took their case to the governor.

Babbitt stole their thunder. His friend Pat Haggerty, the founder and then chairman of Texas Instruments, had convinced him that sustained high-tech growth depended upon top-quality higher education and research institutions. He interrupted the committee presentation, told them about Haggerty, and instructed them to think big. "I'm not interested in being behind short-term or small-time budget increases," he said. "Come back to me with a sweeping multiyear program, and I'll support you."

The advisory committee drew up a five-year plan calling for $32 million in new investments in the engineering school—from industry, from the federal government, and from the state. (As it worked out, industry raised $18.5 million, the federal government contributed about $8 million, and the state provided about $28 million.) With both the governor and the business community pushing the package, the legislature embraced it. Between 1979 and 1984, the College of Engineering and Applied Science built a 120,000-square-foot Engineering Research Center, installed $15 million worth of new equipment, hired 65 new faculty, moved from $1 million a year in research to $9.4 million, and set up a continuing education program that included televised classes beamed right into local plants and offices. In 1984, the National Academy of Sciences ranked ASU's Mechanical Engineering and Electrical Engineering departments second and third in the nation, respectively, in improvement over the previous five years.

In July 1985, the advisory committee and the engineering school adopted a second five-year plan. This one called for $62 million in new money, split among industry, the federal government, and the state. The goal was to move the school into the top ten in the nation.

ASU also launched a university research park. It decided to allow professors to own their own companies, to spend 20 percent of their time working in industry, and to keep a portion of the patent rights on their discoveries. The Babbitt administration played a role in both developments. Babbitt also pushed through a new Disease Control Research Commission, to fund medical research.

Throughout this period, Babbitt worked hard to convince the public that investment in its universities was critical. "In earlier, less complex times, universities were nice to have but not essential to economic growth," he said in a 1983 speech to a high-technology symposium he organized. "When Arizona's first great industry, copper, developed in the late nineteenth century, the main ingredient for success was a strong back and a lot of courage in the face of drought. Then came tourism; its principal ingredients were sunshine and hospitality."

"Now, in 1983, high technology is our growth industry, and the

essential resource to sustain high technology cannot be mined from the hills or grown in our soil or derived from hospitality. The main ingredient of the new high-technology evolution is education, in the form of well-educated citizens with strong scientific and technical skills. . . . Universities and colleges are now an economic asset as important to our economic future as copper ore, farms, banks, factories, and airlines." . . .

If traditional liberalism was the thesis and Reagan conservatism was its antithesis, the developments in America's state capitols offer the glimmerings of a new synthesis—a paradigm that may foreshadow the *next* realignment of American politics, as progressivism foreshadowed New Deal liberalism. The thesis, in its purist form, viewed the private sector as the problem and government as the solution. The antithesis, again in its extreme form, viewed government as the problem and the private sector as the solution. The synthesis redefines the nature of both the problem and its solution. It defines the problem as our changing role in the international marketplace. It defines the solution as new roles for and new relationships between our national institutions—public sector and private, labor and management, education and business. The fundamental goal is no longer to create—or eliminate—government programs; it is to use government to change the nature of the marketplace. To boil it down to a slogan, if the thesis was government as solution and the antithesis was government as problem, the synthesis is government as partner.

The new paradigm can be described as a series of interdependent assumptions about political reality, which together form a coherent way of thinking about our problems. The first assumption is that economic growth must be our major priority, but that it can be combined with equity, environmental protection, and other social goals. Whereas interest-group liberals put their social goals first, and Reagan conservatives put growth first, many governors are beginning to understand that in the new economy, growth *requires* equity and environmental protection.

Second, and perhaps most important, the new breed of governor assumes that the real solutions lie in changing the structure of the marketplace. By the late 1960s, many liberals had come to view the market as the problem; often they saw government as a way to overcome or replace the market. If the market would not build low-income housing, government would. If the market would not bring capital into Appalachia, government would. Reagan conservatives, in contrast, wanted government out of the marketplace—a logical contradiction, given that government sets the rules that allow the marketplace to operate. Today both Democratic and Republican governors understand that the market is far more powerful than government—that government cannot "overcome" or "replace" it. But they also understand that government *shapes* the market. To solve problems, they change the rules of the marketplace, or they use government to channel the market in new directions.

A related assumption has to do with attitudes toward government bureaucracies. Today's governors search for nonbureaucratic solutions to problems; if reshaping the marketplace will not suffice, they turn to third-sector organizations. They believe that many of the large, centralized government programs created in the past—medicaid, medicare, welfare, housing programs—have been inefficient and wasteful (often because government had to buy off the private sector, as in the case of medicare and medicaid). . . .

The fourth assumption is that in the newly competitive global economy, our governments have in a sense bumped up against their fiscal limits. Every governor portrayed in this book has taken great pains to make it clear to the electorate that he is not a big spender. . . .

The fifth assumption flows from the fiscal climate: if public resources are relatively scarce, they must be *invested*, not merely spent. Interest-group liberals responded to many problems, as Ronald Reagan likes to say, by "throwing money at them." If people were poor, the solution was higher welfare grants, more food stamps, greater housing subsidies. Reagan and his followers responded to the same problems by taking money away. The failure of both approaches has created a deep ambivalence within the American public, and a desire for a third path. When public opinion polls ask voters if welfare spending should be increased, they overwhelmingly say no. When polls ask if we have a responsibility to improve the plight of the poor, they overwhelmingly say yes. This seeming contradiction actually has a compelling logic: voters want solutions, but not the ones the two parties have traditionally offered.

The governors are gradually working out new ways to address these problems, by investing in the capacities of poor people and poor communities. "I think the American people don't want to simply break with our commitment to improve the lives of the poor; they don't want to throw all that away," says Art Hamilton, the black minority leader of the Arizona House. "But they don't want to have to pay for all the Great Society madness. People don't believe that the welfare system is designed to put itself out of business; that's what bothers a lot of the people I talk to. If the system were designed to lift people from where they are to where their potential can take them, I think people would gladly support that system." . . .

The new paradigm also involves new assumptions about the proper roles of federal, state, and local governments. The New Deal was a time in which America finally accepted bigness: big business, big labor, and big government. An economy dominated by large, stable, mass-production industries required large, centralized institutions in all three areas. Today, however, our economy is decentralizing. Mass production is moving offshore, and smaller, more automated, more flexible manufacturing operations are thriving in the United States. In the service sector small businesses are proliferating, and in both sectors the entrepreneurial process is accelerating. In 1985, seven times as many new businesses were formed as in 1950. . . .

If current state trends do foreshadow national politics, these principles—growth with equity, a focus on market solutions, a search for nonbureaucratic methods, fiscal moderation, investment rather than spending, redistribution of opportunity rather than outcomes, and a new federalism—provide a rough outline of the next political paradigm.

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LARRY GERSTON
TERRY CHRISTENSEN

From *Recall!*

Few events in state government can compare in drama and publicity with the events in California in 2003. Californians voted Governor Gray Davis out of office in a recall election and replaced him by voting in Arnold Schwarzenegger. Larry Gerston and Terry Christensen examine this exciting moment in recent political history, focusing not only on the winner, a champion bodybuilder and cinema star, but also on the recall process. The authors trace the origin of the Progressive era reforms that created recall, referendum, and initiative, all of which brought direct democracy to the state and local level in some areas of the country. They then turn to the California "earthquake" of 2003: why and how it happened, and the way in which Schwarzenegger ultimately emerged from the recall as the new governor. Students of political science will surely disagree on the wisdom of direct democracy in allowing the people to quickly and directly change policies and even government officials before scheduled elections. Yet the excitement and optimism that "the Governator" engendered cannot be disputed. For Governor Schwarzenegger, the challenge just began with his recall victory. Governing a state with a strong tradition of direct democracy is another matter.

WELCOME TO CALIFORNIA. You'd better have your passport in hand, because this is a different place from just about anywhere else