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PROTECTING EQUITY WHILE REINVENTING GOVERNMENT: STRATEGIES FOR ACHIEVING A "FAIR" DISTRIBUTION OF THE COSTS AND BENEFITS OF THE PUBLIC SECTOR

Blue Wooldridge
Virginia Commonwealth University

Abstract

This article presents a critique of "Reinventing Government" from the perspective of the potential impact of its recommendations on the equitable distribution of the costs and benefits of government goods and services. It also presents examples of how implementing the principles identified might impact social equity, and suggest strategies that would mitigate this disparate impact on minorities, women and the economically disadvantaged.

Introduction

Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector From Schoolhouse to Statehouse, City Hall to the Pentagon by David Osborne and Ted Gaebler (Carroll, 1995) is certainly one of the most influential books on the public sector in recent years. One reviewer refers to its philosophy as creating a "revolution in state and local government" (Garland, 1992: 7). Another concluded his review by saying, "Their book offers both a vision and a road map and will intrigue and enlighten anyone interested in government" (Tolchin. 1992: 7). A third reviewer proclaimed in a recent issue of the *Futurist*:

> One cannot help but be optimistic about the future of government while reading this collection of success stories on how local governments (and even some branches of the U.S. federal government) are adapting to the changing structure of society (Wagner, 1992: 45).

Wagner concluded, "Overall, the book provides an excellent selection of models for reinventing government? (p. 46). In a review objectively entitled "A Breath of Fresh Air," Hitchner *(1992: 430) says* of *Reinventing Government*: "It is one of the preciously few books published in recent years to submit a plausible, practical guide. for getting government'!? *work* as it can and should."

In their book Osborne & Gaebler identify ten "principles" of an "entrepreneurial public organization." These principles suggest that governments 'should' be: 1) Catalytic, 2) Community-Owned, 3) Competitive, 4) Mission-Driven, 5) Results-Oriented, 6) Customer-Driven. 7) Enterprising, 8) Anticipatory, 9) Decentralized, and 10) Market-oriented. As suggested in one of the reviews quoted above, the authors also provide numerous examples of federal. state. and local government practices that manifest these principles. Although the applications of these principles are not new -- in one way or another, they have been implemented in one or more government for years (the International City Management Association's *The Guide to Management Improvements Projects in Local Government* reports numerous examples)-- the authors deserve to be congratulated for bringing these examples together in a single volume, discussing and describing their use. and providing a framework for analyzing their utility.

The book, however, also has it critics. Goodsell (1993: 86) questions the innovativeness of the strategies described, and asks:

> DO we want voucher systems that gut public institutions? Do we want participation schemes that dilute invites suspicion?

Frederickson (1992: 13) attacks the basic premise of the concept of "entrepreneurial government." He states, "It is incorrect to assume that either those who work for government or the system of government work are the primary problems. The problems are power and politics, not bureaucracy." Moe (1994) asks, "Is it possible, by chance, that the entrepreneurial paradigm constitutes a faulty paradigm for public administration and that its adoption in place of the administrative management paradigm is a mistake?"

This article presents a critique of *Reinventing Government* from the perspective of the potential impact of its recommendations on the equitable distribution of the costs and benefits of government goods and services. It will present examples of how implementing the principles identified might impact social equity, and suggest strategies that would mitigate rhis disparate impact on minorities, women and the economically disadvantaged.

Reinventing and Social Equity

It is this article's contention that transforming the traditional governmental organization into an "entrepreneurial" one might have profound implications for an equitable distribution of the costs and benefits of government. This is not to suggest that the authors ignore the important concept of equity. Early in the book (Preface: xix), they state their beliefs in equity. Or, as they define this term, "in equal opportunity for all Americans." While some people might disagree with this definition, this author appreciates Osborne & Gaebler's recognition that some of the ideas they express seem to be inequitable. Also, their efforts to identify some of the equity implications of their recommendations should be commended. This paper is intended to expand upon the authors' belief that, "there are ways to use choice and competition to increase the equity..." (Osborne & Gaebler, 1992: xix). This expansion is particularly important since so many of the "principles" have been embraced by such recent studies as the National Performance Review (Executive Office of the President, 1993), the Winter Commission (The National Commission on the State and Local Public Service. 1993), and the Ohio Commission on the Public Service(1993), and are being studied by the American Society for Public Administration's recently formed Task Force on Governmental Accomplishment and Accountability (American Society for Public Administration, 1994).

This expansion will be presented in four parts. Part One will discuss the growing importance of social equity as a criterion in the public manager's decision-making process. Part Two will build on Osborne & Gaebler's "Principle of Enterprising Government: Earning Rather Than Spending," and suggest strategies that might enhance the equitable distribution of the costs of government, including the increasing importance of user charges as a source of revenue. 'Part Three will discuss the possible service distribution implications of implementing some of the authors' other principles. Part Four will address the possible impact of these principles on another of government's benefits-government employment.

Equity as a Consideration in Public Managers' Decision-Making

"The importance of social equity in the conduct of government and distribution of public services has been advanced by a number of contemporary scholars" (Wise, 1990: 567). Frederickson says that he developed the theory of social equity in the late 1960s, to remedy a glaring inadequacy in both thought and practice (Frederickson, 1990). One of the earliest justifications of this concept appeared in the November 1971 issue of the International City Management Association's journal, *Public Management.* In the lead article of a symposium on the "New Public Administration," Frederickson describes some definitions, descriptions, or attributes of this concept:

- The recognition that administrative value neutrality is improbable, perhaps impossible, and certainly not desirable;
- A public service is a general public good which generally can be well or badly done;
- However well or badly done, generally provided public services vary in their impact on recipients depending on the recipient's social, economic, and political status;
- The public administrator is morally obligated to counter this tendency;
- Variations from equity always should be in direction of providing more and better services to those in lower social, economic, and political circumstances (1971: 2).

Frederickson put forward this concept of social equity as a "third pillar" for public administration, a concept which should hold the same status as economy and efficiency values to which public administration should adhere (Frederickson, 1990). Later, Nalbandian points out:

> The value of efficiency still underpins the local government management profession. bringing with it the application of knowledge and expertise to local government problems. But efficiency by itself inadequately describes the value base of professionalism in contemporary city/county management Representation. individual rights, and social equity frequently compete with efficiency.... (1990: 655).

Frederickson goes on to say that, "a full commitment to social equity might result in the development of a kind of compensatory ethic, that is, a norm which tells the administrator that public services must be especially well-developed in those areas of his [or her] community which have the most critical need to balance the inherited disadvantage of the poor" (1971: 2).

Frederickson's views are certainly in line with John Rawls' view of "Justice as Fairness" (Rawls, 1971). It has been suggested that Rawls' concept would first require an extensive scheme of equal basic liberties:

Once such liberties are assured, we should apply what Rawls calls 'the difference principle' to the basic structure of society. The difference principle would require that all inequalities of social primary goods-rights, opportunities, income, wealth, and so on--could only be justified if such inequalities would contribute to raising the position in these respects of the least advantaged groups in the society (Combe & Norton,. 1991: 206). Such a re-distributive role as a consequence of the view of justice as fairness, which is in sharp contrast to Nozick's idea of an "entitlement theory" of justice (Nozick, 1974), would result, according to Rawls, from policy makers making decisions cloaked in a "Veil of Ignorance."

There is no question that judgments about service equity require judgments about values, but the distribution of services is at the heart of policy-making. Based on her/his values. the public manager should be concerned about how decisions are made regarding the distribution of particular goods and services. Public managers must examine the "decision rules" (Lineberry & Sharkansky, 1978) they use in making distribution choices to determine if these rules result in an inequitable distribution of that particular good or service.

Enterprising Government: **Earning Rather Than Spending.**

Osborne & Gaebler suggest that "perhaps the safest way to raise non-tax revenue is simply to charge fees to those tho use public services" (p. 203). In fact, the decade of the 1980s may well be considered the decade of the user charge. John Shannon of the Advisor! Commission on Intergovernmental Relations suggests that the prevailing philosophy was "don't tax thee and don't tax me, but charge that user a high dam fee."

The rise to prominence of user fees as a revenue source for local governments during this *time* may have been government's response to the constraints imposed by the Tax-Expenditures Limitations (TELS), such as Proposition'13 in California and Proposition 2 1/2 in Massachusetts. Another incentive for governments to seek out other revenue options was the decline in federal intergovernmental fiscal assistance during the 1970s and the early 80s. This trend of local governments turning to user charges is reflected in Table 1.

In December 198 1, &Advisory Commission on Intergovernmental Relations (ACIR). in collaboration with the (then named) Municipal Finance Officers Association (MFOA), sent a revenue questionnaire to a representative sample of 597 municipal *finance* officers. Seventy seven percent Of the responding governments indicated some changes in their use of user charges, either by adopting new charges, or extending the base or increasing the rate of existing ones.

TABLE 1

Relative Importance of User Charges to Local Governments:

National Average and Selected States

States	1978	1981	1991
Georgia	21.80	23.82	23.33
California	9.01	11.53	15.54
Nebraska	14.40	16.51	16.97
National Average	11.37	12.44	14.38
Virginia	9.11	9.57	12.77
Pennsylvania	8.82	9.33	10.75
Rhode Island	3.30	3.93	5.72

Source: Wooldtidge, Gillespie & Bowcn. 1993, selected tables.
Note: Figures represent user charges as % of total general revenues

By the end of the decade, the National League of Cities stated in a report, *City Fiscal Conditions* in 1989: "The most frequently employed action (to changing financial conditions) was an increase in the level of fees and charges. Sixty-nine percent of the cities reported taking this step in the last year" (National League of Cities, 1989: 23). According to the League's January 1990 report, there is reason to believe that this trend will continue well into the 1990s. Nearly half of the city leaders surveyed projected increases in user fees (National League of Cities, 1990).

There has been a fairly dramatic shift in the relative contribution of user charges to the overall local government revenue base. Between 197.8 and 1988, local governments in forty- six states increased the relative importance of user charges (Wooldridge, Gillespie. & Bowen, 1993). Although there are variations in the use of different revenue sources by public organization (Spain & Wooldridge, 198 1), the trend towards an increased dependence on user fees is clear.

Some characteristics of user charges make them an appealing alternative source of revenue. Charges are different from taxes in that they involve a direct exchange-a service is performed for which a price is paid. In addition to generating revenues, user charges also ration output by limiting the use of these public services to those willing (and able) to pay for them

User charges allocate the financial burden to those individuals who enjoy the benefits. These individuals bear the burden in close relationship to the amount of service they consume. Charges also signal how much service is wanted; that is, charges indicate which users value units of service as much as the per-unit price charged (Hirsch, 1970). Supporters of user fees usually invoke the benefit principle in their defense. This principle states that individuals who benefit directly from a good or service should pay for that service.

There are, however, several disadvantages to the increased reliance on user charges. Unlike the local property tax, user charges cannot be deducted from the federal income tax payment. therefore those taxpayers who itemize could end up with an increased tax burden. Increased implementation of user fees can lead to "fee saturation" and cause additional ability-to-pay and willingness-to-pay problems. The Conference for Alternative State and Local Policies (CASLP) states: "User fees imposed for public services that are likely to be *more often* consumed by lower-income people, such as public swimming pools and health care facilities, have serious equity implications" (1983: 80). In addition, some of the non-revenue consequences of user fees, such as their ability to ration consumption of services, have other serious policy implications. "Setting too high a fee will discourage consumption of a service, in part, by barring low-income people from using the service..." (CASLP, 1983: 80).

Due & Friedlander (1977: 89-90) suggest that funding by user charges instead of by taxation is most justified when:

- Benefits are primarily direct, so that charges will not cause significant loss of external benefits.
- Demand has some elasticity, so that the use of prices aids resource allocationand eliminates excessive utilization.
- Charges do not result in inequities to lower income groups. on the basis of accepted standards.
- Costs of collection of charges are relatively low, or alternative taxes measured by use can be employed.

Other requirements that should be considered in determining whether to' implement user charges include:

- Quantity and quality dimensions of output units must be specified and to some extent quantified.
- Exclusive ownership or rights to use must be defined and must lend themselves to exchange.
- Rights to exclusive use must be enforceable at reasonable cost.
- Total estimated costs of an output program must be less than total expected revenues or else sales revenue must be augmented by non-sales revenue that have been justified by political tests (Hirsch, 1970: 34).

To reduce the regressive impact Of user fees, the CASLP has suggested several strategies:

- Cities and counties should assess the impact of new or expanded user fees on their citizens prior to imposition.
- Fees for essential services which prom& the general well-being Of the

community should not be imposed.

- Cities and counties should take steps to lessen the inequities inherent in existing user fees. Reduced fees could be made available to certain identifiable groups.
- Cities and counties should select those services likely to be consumed by higher-income people for imposition of user fees, or increases in existing fees (CASLP, 1993: 82).

RAND researchers suggest three strategies to reduce the regressive impact of user fees on the economically disadvantaged:

> *Lifeline Rates:* One approach to this form of protection is a variant on lifeline electricity. The idea is to provide a minimum level of consumption at a low cost.....Beyond that level the price per unit rises.
>
> *Target Group Discounts:* Another approach is built on the example of special fares for the different groups that use public transit systems. School children, the elderly, and the handicapped are charged lower fares than other passengers. Once again. the protection is built into the system of charges.
>
> *Neighborhood Rebates:* Another approach would be to establish charges that vary with the income of the neighborhood. Rebates in low income neighborhoods (identified, say, through Census tract statistics) could be installed for local facilities such as Iibraries and health clinics, or for such services as paramedics and street maintenance (McCarthy *et al, 1984:* 53-54).

It appears that local *governments* across the country will increasingly rely on user charges. Local government officials must be sensitive to the unique characteristics and consequences of this revenue source. Particular attention must be given to the disproponionate burden this resource places on the economically disadvantaged. Where such impact is found. relevant strategies, such as those suggested in this article, should be used to reduce this regressiveness.

The Equitable Distribution of Government Goods and Services

Many of the readers of this article will be called upon, because of their roles as professional public managers and their professional expertise, to participate in decisions affecting the types, magnitude, and/or geographical impact of reductions in expenditures and hence a reduction in the amount of government goods and services. In other instances. following Osborne and Gaebleis recommendation that governments should "Steer, not Row." readers may be negotiating with third parties for the provision of goods and services once delivered by government personnel. it is essential that individuals with these responsibilities be'sensitive to the concept of equity and public service distribution (Lucy & Mladenka, 1977).

Many services that local governments provide are routine and everyone is familiar with them. They include police,' fire, refuse, water, park, recreational, and library services. Yet most public officials know little about who uses these services. There is rarely any systematic analysis of *who* gets *how much* of the services that local government provides. Public officials should be concerned with answers to such questions as:

- ??? now benefits from the service?
- Will the resulting goods and services' be distributed equitable/fairly?

There are, of course, many definitions of the concept of equity. This term will be a more useful concept in the analysis of distribution patterns if its several meanings are recognized, and if concerned public officials try to select the particular definition of equity that is most appropriate to a particular good or service.

As Lucy & Mladenka (1977) point out, one way to define "equity" is to equate it with the term *equality*. Using this definition, services might be distributed on a per capita basis (even after deciding that this definition is the most appropriate, another important decision must be made. What will be the "unit of analysis for distribution"? Will it be the household, per capita, or some other unit? This decision also will affect the distribution of goods and services). Another important factor to consider, when using equality as the preferred dimension of the term equity, is, quality of what? Resources used, efficiency, or impact/outcomes? To paraphrase one of Lucy & Mladenka's examples, one might analyze police distribution in terms of(i) the number of police patrolmen per 1,000 neighborhood residents (a resource indicator); (ii) the average response time for each neighborhood (an efficiency indicator); or (iii) the level of cenain times of crime (an impact/outcome indicator). Again, the decision as to which indicator of equality to use in the analysis will affect the distribution of community resources.

A second very important concept inherent in defining equity is *need*. Equity based on need assumes that some people have a greater need for public services than do other people and that greater need should influence the distribution of public services.

A third concept conveyed by the word "equity" is *demand*. Equity based on demand means that the public service distribution should be influenced by the demands that people make for services. These demands can be expressed in several ways, including the use Of facilities, requests for services, or, perhaps, even complaints about services.

A fourth possible meaning of the word "equity" is *preference*. Preference reflects expressed and unexpressed wishes. Services can be distributed equitably according to preferences. Citizens may wish to request a particular service but might not do it They might want to use certain public services but cannot because they lack money or accessibility.

Finally, there is the meaning of "equity" based on the concept of *willingness-to-pay*. Some services, it is thought, should be distributed on the basis of the willingness of the consumers of these services to pay for them.

It has been suggested that an understanding of the definitions/dimensions of the term *equity* might result in a more equitable distribution of government goods and services. Public officials might decide that a specific level of one good or service will be distributed based on the dimension of *Equality*, with additional amounts of the same good or service distributed on the dimension of *Willingness-to-Pay* or, perhaps, *Demand*. Another service might be distributed solely on the dimension of Need. There are numerous combinations of these dimensions of equity that might lead to an optimal distribution of goods or services to meet a specific community's Social Optimality (Due & Friedlander, 1977). For example, a local government might divide its library budget in order to distribute one portion to district libraries on a per capita basis *(equality)* and the rest on patrons' request *for* service *(demand).* **All** parts of the community might have **a** minimum level of police services *(equality)*, with high crime areas receiving special attention (need). Street cleaning might be provided free in those parts of the community that require it because of overcrowding and/or status of poor streets and deteriorating neighborhoods *(need)* and on a fee-basis to other parts of the community *(willingness-to-pay).* Obviously, the local government must be prepared and willing to bare the political pressures resulting from such policies.

An investigation of the distribution of goods and services among different constituencies in a jurisdiction **is** extremely important and should be considered in any discussion of a reduction in local government expenditures or in contracting out for the provision of such services.

Equitable Distribution of the Benefits of Government Employment

A frequent consequence of implementing some of Osborne & Gaebler's principles of an "entrepreneurial government organization" could be a reduction in the number of government employees. Using many of the thirty-six alternative to public employee service delivery could result in fewer individuals working directly for government. In fact, a major aim of the National Performance Review is to reduce the federal work force by nearly three hundred thousand employees (Executive Office of the President, 1993).

A *concern* for the equitable distribution of the benefits of government employment is appropriate for at least three **reasons. First,** government jobs offer compensation that affect the employee's living standards. Second, there are intrinsic rewards, such as an opportunity for self-realization, associated **with** government jobs. **And,** finally, employment in government provides a vehicle for the empowerment of the views of different groups within society (Wise, 1990).

Unfortunately, previous experiences **with reducing** the number of government employees have disproportionately impacted those groups that have traditionally been under-represented in public sector employment, **especially** at the higher levels of public organizations (Barnes, 1981; Bureau of National Affairs, 1982; Denton, 1982). 'Representative Michael Bames (D-Md.), then chairman of the Federal Government Service Task Force, reported that as of October 1981, "minority **administrators were 3.2 times as likely to be** RIFed as non-minority administrators.....Women administrators are 1.6 times as likely to be RIFed as men administrators...(p. 3).

Similar trends were observed **at the** state and local levels:

> Four of every five Maryland state employees receiving layoff **notices** last October [198 1] were **women or minorities.** In Detroit, where three of every five members of the work force are black. four of every five of the **nearly 3,000** city employees laid

off over the last couple of years have been black (Denton, 1982: A 70).

The Bureau of National Affairs Special Report on *Layoffs, RIFs and EEO in the Public Sector* (1982) listed strategies, at that time untested legally, used by state governments to mitigate this disproportionate impact on minorities and women. A few of these strategies are listed below:

- ...[T]he board shall determine how the work force composition in each class of employee will be affected if the layoff is conducted in the regular order of seniority...a board hearing [shall be held] to determine if past hiring discrimination has occurred that affects the work force...the board can issue specific directions changing the order and/or sub-divisions of layoff and re-employment so that the relative composition of the affected work force will be. as nearly as possible, the same immediately after the layoff as it was immediately before the layoff.
- State merit employment commission permits affirmative action (AA) exemptions up to 5%, [and] permits AA consideration in state, RIF's for all state employees not covered by a collective bargaining contract only if a disparate imbalance will result from a RIF based on performance and seniority.
- EOC policy calls for flexibility in layoffs to protect AA and EEO for all state employees not covered by a collective bargaining agreement.
- Exemptions to seniority-based RIFs may be made for AA purposes and are to be identified in the layoff plan submitted for review and approval.
- AA policy maintains that agencies are to monitor any racial or sexual adverse impact experience during a seniority-based layoff. Any under-utilization resulting from a RIF may be taken into consideration during future hiring (Bureau of National Affairs, 1982).

In some instances, workforce redundancies will be caused by the contracting out of previously government-delivered services. Ford (1988) suggests three strategies to reduce the disproponionate impact of such events on minorities and women. First, he suggests that the government consider setting up the soon-to-be-laid-off employees as small-business persons. then contract with them to perform the work. As he says, at least they will know where to find the job sites. Second, the government should negotiate with the contractors to hire (some of) the laid-off employees, at least for a specified minimum length of time. Third, the government CM consider establishing minority and/or women "set-aside" contracts to ensure that underrepresented groups will still benefit from government goods and services.

Obviously, the establishment of minority set-aside programs will be much more difficult since the Supreme Court's ruling in the *City of Richmond v J.A. Croson Co.* (Rice. 1991; Simms, 1990). However, under the proper conditions and with careful planning, they Can be justified (Rice, 1991). Ward (1994) reports the following strategies that state and local governments should follow:

- First establish that race-neutral remedies fail to correct discrimination in awarding contracts.

- Second. lawmakers should be provided with concrete statistical evidence of unexplained disparity between' the amounts of contract dollars non-minority "firm; receive and what minority firms should 'receive in the absence of -discrimination.-.
- Third, corroborating anecdotal evidence of the inference drawn from results Of statistical evidence should be provided. Fourth, state and local officials should set flexible numerical goals allowing for a reduction of disparity between the amount of contract dollars minority firms receive and what they should receive. (p. 483)

La Noue & Sullivan (1995) suggests that race neutral programs in public contracting might be enriched by such strategies as improved outreach, capital assistance, assistance in bonding, local. small and emerging business policies, disaggregation of contracts, and arrangement for accelerated payments to sub-contractors.

It does appear that the inequitable impacts of a reduction in force can be reduced by careful government planning and implementation. The above examples demonstrates that reductions in force or layoffs do not, inherently, have to impose disproportionate negative impact on minorities and/or women.

Conclusion

Reinventing Government offers many suggestions that can improve the efficiency and effectiveness of government services under certain conditions. Public officials must determine if these conditions exist in their community, at this time. In addition, public officials must be vigilant that constitutional accountability does not suffer when implementing these "principles." Assuming these first two criteria have been met, the effects of strategies implied by these "principles" must be analyzed in terms of their impact on the equitable distribution of the costs and benefits of government.

A more efficient, effective; responsive government, yes, but not a more inequitable one. Strategies should be designed to contribute to Frederickson's concept of the "compensatory ethic"-a norm that tells the administrator that public services, delivered either by "steering" or "rowing," must be especially well-developed for those segments of the population thar have suffered the inherited disadvantage of being poor or under-represented.

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