

Public Innovation and Political Incentives

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The predominant view of innovation in government has been one of suspicion. This is, at first glance, both ironic and surprising—ironic because such skepticism in the world of commerce is widely recognized as a ticket to oblivion, and surprising because few would dispute the need to improve the quality and cost-effectiveness of government performance. A closer look, however, reveals major obstacles to innovation that are deeply ingrained in the structure and practice of American government. Four, especially, stand out:

First, while government agencies may be pressed by their clients and elected overseers to be more effective and/or more efficient, they rarely face direct competition. As a result, they seldom experience an urgent need to abandon familiar routines.

Second, a paramount dread of government officials is newsworthy failure. Old programs may be inadequate, but their familiarity insulates them from much media attention. Even when they do attract scrutiny, responsible officials can plausibly defend themselves with the argument that they have simply been following standard practice. When new initiatives fail, however — and inevitably a large percentage do — they become highly newsworthy, and the focus is typically: who is to blame? In such cases, the “standard practice” defense is unavailable.

Third, the public sector lacks a common measure of success, such as profitability in the business world. As a result, very few departures from current practice — regardless of how effective they may prove in relation to their target objectives — escape controversy.

Fourth, Americans tend to be deeply ambivalent

about encouraging non-elected bureaucrats to exercise discretion. Indeed, the dominant tradition of U.S. administrative reform has been to stamp out as much bureaucratic discretion as possible.¹ This tradition has deep roots in our constitutional heritage, a heritage in which two objectives are paramount: keeping government power in check, and keeping it firmly rooted in popular sovereignty. Its most common expression in the practice of public administration is routinization — insistence on compliance with vast numbers of rules and regulations designed to address every imaginable situation in which discretion might be exercised. Routinization, of course, is anathema to innovation.

Innovation and Accountability in the Private Sector

In the private sector, by contrast, it is an article of faith that what is excellent today will be inadequate tomorrow. Business executives are preoccupied with innovation, and with how to elicit it from their organizations — in a constant flow, more quickly than their competitors, and better targeted at market opportunities. This phenomenon has long been a defining feature of capitalism, and it has taken center stage in recent decades with the globalization of commerce and the sharp intensification of competition.²

“Elicit” should be underscored. In the new world of commerce it is no longer enough for managers alone to innovate. The most essential task of business management today is to mold innovative organizations — enterprises structured and inspired at all levels to innovate.³ Having created such organizations, top managers must still provide direction and screen potential innovations. But, regardless of

how good those managers may be in charting courses and screening proposals, they know that it is the uninterrupted flow of innovative ideas from below that will ensure their organization's future success.

Corporate executives are no less concerned with accountability than elected government officials. Because they know, however, that they will be graded against objective measures of performance, they are more prone to be outcome *as well as* process oriented. Stated another way, no management strategy is likely to attract many adherents unless it keeps employees sharply focused on enterprise objectives and yields highly competitive performance. If it fails either test — accountability or performance — its other virtues are irrelevant.

In the business world there is a growing consensus that micromanagement and high performance are often at odds with one another. The solution, in a phrase popularized by Thomas J. Peters and William H. Waterman, Jr., is “simultaneous loose-tight” organization. In their worldwide best-seller, *In Search of Excellence*, they maintain that successful companies are “fanatic centralists around the few core values they hold dear,” yet they “allow (indeed, insist on) autonomy, entrepreneurship, and innovation from the rank and file.”⁴

Among the preconditions for effective loose-tight organization, the most important, certainly, is trust. Senior officials must trust their subordinates, when given wide discretion, to exercise it reliably in the service of organizational values, understand the level of approvals required for each proposed departure from routine, and secure such approval before implementing their plans.

In turn, subordinates must trust their superiors to appraise their work wisely and fairly, provide generous rewards — psychological if not tangible — to those who succeed, and calmly encourage those responsible for well-conceived failures to try again.

Among these elements of mutual trust, the last may be the most important. An innovative organization is one in which the employees are a constant source of ingenuity, providing management with a rich reservoir of innovative ideas. It is also true that innovations fail more often than they succeed, and the bolder the innovation the greater the risk. It is management's challenge to provide incentives for trying, even as most initiatives are eventually rejected.

The Political Incentive Problem

Most people, particularly those who rise to the highest positions in large organizations, are acutely sensitive to incentives. Business executives have strong incentives to build innovative organizations, elected public officials the opposite. But elected officials do have multiple incentives, and some of them are favorable to certain kinds of innovation.

In election campaigns, for example, there are powerful incentives for politicians to associate themselves with fresh ideas. With the decline of political parties and the rise of primaries as the path to nomination, individual candidates are in urgent need of distinguishing symbols to attract media coverage, interest group support, and name recognition. Voters expect candidates to demonstrate their energy and capacity by championing “new” ideas.⁵ And innovation by elected officials is entirely consistent with the ideal of popular sovereignty.

It is also true that the risks in advocating new ideas decline in direct relation to their generality. This is because of the tenuous link between the original idea and eventual outcomes, once the idea has been filtered through the legislative process and implemented. Did the War on Poverty yield only modest benefits because it was misconceived, or because it was inadequately funded? Did Medicaid costs explode because the original advocates erred, or because legislators caved in to health-care providers during Congress's enactment of key provisions? Several decades later, such issues still generate controversy.

Bureaucratic innovations, on the other hand, are more transparent. Their focus is more particular and identifiable, failures can be immediately apparent, and the evidence can be very difficult to explain away. Moreover, while a campaigning politician need only worry about the impact of his or her own rhetoric, an elected official who encourages bureaucrats to innovate must be concerned with the actions of large numbers of relative strangers.

In addition, elected chief executives typically arrive in office with little knowledge — and often considerable mistrust — of the organization they are about to lead.⁶ They often devote considerable attention to selecting their most senior political appointees, but relatively little to becoming well-acquainted with the career bureaucracy, articulating core values to guide it, or upgrading its ability to employ discretion

wisely and effectively.

Many, perhaps most, elected representatives never progress beyond their initial skepticism about innovation. But some do. And there are a number of promising strategies for shifting the balance between risks and potential rewards in favor of the risk takers.

Meta-Innovation

Elected officials are usually well advised to keep their advocacy general, positioning themselves to take credit for successes and to join the critics in the event of failure. Even this approach entails a modicum of risk that they will be blamed if things go wrong. But this need not be fatal. Politics is a game of risk. How the prospective benefits and risks stack up is the serious question.⁷

On the benefit side of the ledger, a central dilemma is that few government innovations — or indeed managerial ideas of any type — have much voter or media appeal. In this context, almost any risk may seem from a political standpoint to outweigh potential gains. But there have been exceptions in the past and there are some today.

Such innovations typically share three characteristics: (1) they address problems of intense public concern, (2) they are applicable to a wide range of circumstances, and (3) they are value-neutral, in the sense they can be usefully employed by partisans of divergent policy objectives.

A classic example is civil service. A central instrument of Progressive reform in the late 19th and early 20th centuries, it attracted broad political support as a weapon against corrupt machine politics. Politicians who supported it reinforced their “good government” images. Its advocates plausibly claimed that it had utility in any program context, without regard to a particular jurisdiction’s substantive policy choices.

Contemporary examples aim at different ills and employ different methods. While Progressive reform sought to reduce corruption and patronage, contemporary reform seeks to root out inefficiency, ineffectiveness, and nonresponsiveness. Its guiding concerns are that the public is dissatisfied with government because of what it perceives as excessive cost per unit of benefit delivered (inefficiency); because some activities fail to generate much benefit at all (ineffectiveness); and because government bureaucracies resist

the customization of policy to address specific circumstances and constituent preferences (nonresponsiveness). For government to be truly accountable, in this view, far more emphasis must be placed on “outcome criteria” — efficiency, effectiveness, and public satisfaction — and far less on “input criteria,” such as process consistency, rule-adherence, and detailed hierarchical control.

These changing priorities are reflected in a number of new approaches to public management, among them: (1) customer focus, (2) public-private competition, and (3) performance benchmarking. (Others include citizen participation, consumer choice, and privatization.)⁸ Each of these “meta-innovations” is an umbrella concept, viewed by its advocates as promoting better, more innovative government in a wide variety of circumstances, rather than as a specific solution to one or more concrete problems.

Customer Focus

The customer-focus concept is borrowed from the private sector. In the world of commerce, purchasers provide revenue in exchange for products and services. In public life, by contrast, most revenue is generated by taxation and allocated by legislation. So the idea that public clients are “customers” is metaphorical rather than literal. The metaphor is valuable, however, in focusing the attention of government bureaucrats on the preferences and perceptions of those whom they directly serve, rather than simply their rule books and overseers. Customer-oriented government need not involve an escape from oversight, moreover, because outcomes and client satisfaction can be monitored. Effective monitoring often requires some ingenuity, because simple bottom-line financial measures are rarely pertinent, but that is all the more reason to encourage innovative spirit in government.

One key problem in applying the customer concept is that government action is often justified as benefiting multiple beneficiaries with very different — indeed, frequently competing — interests. Schools, for example, are charged with serving students with a wide range of needs, with reflecting community values (on which there may be little or no consensus), and with furthering such broad societal objectives as economic competitiveness and civic order.

It also bears emphasis that governments do a great deal more than provide services. They also enforce obligations

and punish violators. Are the recipients of tax bills, regulatory orders, and prison sentences “customers” of the administering agencies? Arguably yes, but if so then many governmental agencies are charged primarily with coercing rather than serving their customers.⁹ Despite such shortcomings, the customer concept is a valuable instrument of performance-oriented management, and fits a wide array of situations. Consider the example of Minnesota’s Strive Toward Excellence in Performance (STEP), which received a 1986 Ford Foundation Innovations Award.

Launched by Governor Rudy Perpich and Commissioner of Administration Sandra Hale, STEP restructured Minnesota’s “overhead” and line agencies. The problem it addressed was that overhead agencies – bureaus of management and budget, procurement, personnel, and so on— deal directly with other public agencies, rather than the public at large. As controllers, they work clearly and unambiguously for their superiors. As service providers, however, their mission is to assist line agencies. It is in this second role that they have often failed in the past, putting control functions ahead of service functions, appearing to line agencies as major impediments to, rather than facilitators of, effective performance.

Michael Barzelay and Babak Armajani, who studied the STEP program in depth, label this problem “the service-control tension.”¹⁰ Barzelay and Armajani argue that service and control functions should, wherever possible, be separated, both structurally and conceptually. One important result of bifurcating functions in this way is that employees are likely to have a much better understanding of their true roles.

A clear test of whether a particular overhead agency function is really a service or control function, they maintain, is whether a line agency would pay for it voluntarily. Where service and control agencies each have clearly defined jurisdictions and responsibilities, a pure service agency – e.g., one providing computer or printing services — should be able to support itself through fees paid for its services, even in the face of private competition. Where it cannot, the agency is either inefficient or the function is inappropriate, or both. In either case, that service is arguably better left to private providers.

Choices are not always so clear, of course. Barzelay and Armajani judge, for example, that procurement and personnel functions stand out as areas in which a *dual* orientation — toward overseers and line agencies both — is appropri-

ate. They caution, however, that “overseers should hold the managers of such activities accountable for meeting the needs of line-agency customers,” as well as for achieving central control objectives. Failing to achieve this balance, they observe, may cause the control mission to undercut customer service.

The need to balance competing demands of different “customers” does not, however, negate the value of the concept. Indeed, the customer service model appears to have utility in addressing a broad range of internal management problems.

Public-Private Competition

There has been much talk in recent years about privatizing public services. Where privatization is feasible, however, direct public-private competition is also possible, and has the potential to invigorate rather than merely shrink the public service. In face-offs with private vendors, though, public employees can rarely hope to prevail by simply working harder. To win the day they must find ways to revamp and streamline their operations: in short, to innovate.

Stephen Goldsmith, the current Republican mayor of Indianapolis, was originally elected on a platform of wide-ranging privatization. Early in his first term, however, he became persuaded that public employees should have the opportunity to compete. He also gradually realized that the city’s cost accounting system was a major impediment to effective privatization or competition. Without reliable information on service unit costs there was no good way to draw up reliable contract specifications, to compare public employee with private proposals, or even to arrive at sound judgments about which services should be subject to competition at all. A quick canvass revealed that Indianapolis was in good company — no other public jurisdiction had an adequate cost accounting system either. So Goldsmith hired a leading national accounting firm to develop more useful cost and service measures. And soon he was putting city services—more than 60 of them through 1995—out to bid.

Over time, the Competition and Costing Initiative, as the program came to be known, yielded dramatic savings for the city. It also enabled Goldsmith to cut the city labor force by a third in his first four-year term, became a centerpiece of Goldsmith’s local image as an effective mayor, and

brought him substantial national publicity. The publicity was overwhelmingly favorable, moreover, largely because of the initiative's broad employee acceptance. This was possible because public employees prevailed in most of the competitions. Those who won were delighted at this demonstration of their entrepreneurial capacity. Those who lost were generally offered retraining and transfers to other city jobs. When the Competition and Costing Initiative received a Ford Foundation Innovations Award in 1995 the mayor's office and the city's largest labor union accepted it jointly.¹¹

Performance Benchmarking

Traditionally, governments have been managed and evaluated in terms of resource inputs (expenditures, typically), easily measurable outputs (*e.g.*, number of students enrolled per average school day), and compliance with process rules (in hiring and contracting, for example). But little if any attention has been given to outcomes. Are children learning more or less? Are crime rates rising or declining? Are members of the public more satisfied, or less, after encounters with public bureaucracies?

The reasons for this omission are no great mystery. It is extremely difficult to establish causal relations between government actions and societal outcomes. The effort to do so, moreover, can easily lead to embarrassing results if it turns out, for example, that increased expenditures have had no discernible impact on outcomes, or that some of the most significant effects were unintended or negative.

Because outcomes are what really matter, however, numerous efforts have been made over the years to bring outcome measurement and evaluation into the mainstream. Some have even enjoyed brief popularity - Planning Program Budgeting (PPB), for example. But most have quickly lost their luster.

The burden of subjecting every category of expenditure to serious evaluation is seldom justifiable. Similarly, agency self-evaluation almost invariably produces positive findings, and is therefore suspect. In addition, such efforts lack any significant constituency outside of government. Accordingly, as their limitations become apparent and their original political advocates move on, the tendency has been to discard rather than refine them. Evaluation continues, but it tends to be focused on small social program initiatives; it has had little

impact in establishing or refocusing government priorities generally.

Oregon Benchmarks, a 1994 Ford Foundation Innovations Award winner,¹² is a conspicuous exception to this rule. It has significantly affected government priorities and enjoys substantial constituent support.

The Benchmarks program emerged from a strategic planning process that was launched by Governor Neil Goldschmidt in the late 1980s, a process that featured broad public input. One feature of the final plan report, issued in 1989, was a recommendation that the state develop measurable indicators of progress toward strategic objectives, and focus on them sharply.

To implement this recommendation, Governor Goldschmidt promptly created a new agency, the Oregon Progress Board. Following extensive public input, the Progress Board proposed 158 indicators to the Oregon Legislature — with benchmark targets for 1995, 2000, and 2010. (As an example, the Progress Board recommended a 1995 teen pregnancy-rate benchmark of 9.8 per thousand females between the ages of 10 and 17, 8.0 in 2000, and 8.0 in 2010. The baseline 1990 rate was 19.5.) The legislature enacted the benchmarks as formal state objectives in 1991, and has since revised them every two years.

Given the large number of benchmarks, prioritization soon proved essential. In its December 1992 report, the Progress Board identified “core” and “urgent” benchmarks. The former were intended to provide “fundamental, enduring measures of Oregon's vitality and health,” while the latter were meant to highlight critical short-term objectives. As of 1994 the Progress Board had identified 23 core and 20 urgent benchmarks.

Oregon Governor Barbara Roberts took office in 1991, made the Benchmarks process her own, and used it to set her budget priorities. Soon, legislative committees began pressing state agencies not only to demonstrate their cost-effectiveness, but also to show that their programs would help achieve key benchmarks. Local governments, industry associations, foundations, and churches also embraced the process, often adopting specific state benchmarks as their own priorities for action. Without the aggressive outreach effort to organizations and citizens in the state's original benchmark deliberations, it seems likely that the “buy-in” would have been far less

deep and widespread.¹³

Effective implementation remains a challenge, however. As key elected officials and constituency groups have become committed to benchmark-focused management, state agencies, accustomed to justifying their activities in terms of input and output trends (for example, “We have increased the number of police on the street by 5% in the last 18 months.”), have found themselves pressured to demonstrate the connections between their activities and target outcomes.

In order to compete effectively for resources, they have been forced to rethink their operations and their traditional management indicators. They have, in short, been challenged to innovate.

The Oregon Benchmarks program has spawned numerous progeny, among them a 1994 federal-state demonstration project known as The Oregon Option. Through refocusing federally-aided service delivery, the program has consolidated funding categories, suspended numerous rules and paperwork requirements, and sought to hold the state accountable for achieving target outcomes. Though still in its infancy, the Oregon Option is being watched closely as a test of the potential of outcome-oriented management.¹⁴

The Prospects for Bureaucratic Innovation

In sum, American policy elites and the general public are deeply ambivalent about the desirability of bureaucratic innovation in the public sector. Yet there is broad agreement on the need to improve government performance. It is hard to imagine how that can be achieved without both encouraging public servants at all levels to take responsibility for performance and giving them some leeway to pursue it. In turn, it is difficult to imagine how incentives can be altered to encourage such innovation unless elected officials first become convinced that it is compatible with their own political interests.

Elected officials and candidates already have strong incentives to associate themselves with fresh ideas, and the ideas that are the most likely to further their careers share three characteristics: (1) they enjoy – or promise to enjoy – constituent support; (2) they unite rather than divide voters; and (3) they are sufficiently general to insulate elected officials from excessive criticism if implementation goes awry.

It stands to reason, then, that the innovations with the greatest appeal to elected officials are meta-innovations:

broadly-targeted umbrella strategies as opposed to means of addressing highly specific problems. Meta-innovations can tap effectively into popular themes in American culture (for example, that ordinary consumers benefit when providers have to compete) and problems that people believe are urgent (for example, excessive government costs).

While envisioning broad delegation of authority to originate innovative ideas, the advocates of meta-innovations invariably emphasize that final authority to carry out new approaches will remain firmly in the hands of elected officials. At the same time, by casting their advocacy of specific meta-innovations in general terms, they leave elected officials ample freedom to join attackers when specific implementation errors occur.

Meta-innovations of the sort highlighted above may or may not prove to be harbingers of a shift in the fundamental paradigm of American public management toward performance and innovation. If such a transformation does occur in the coming decades, however, I believe it is likely to arrive via meta-innovations of this type – which attract support because their themes are mainstream, which are sufficiently general to provide politicians with a modicum of comfort, which are essentially neutral with respect to programmatic purposes, and which encourage innovation in ways that arguably enhance rather than sacrifice democratic accountability.

Endnotes

1. Michael Barzelay, *Breaking Through Bureaucracy* (Berkeley, University of California Press, 1992), 3-5, 117-33.
2. For a historic view, see Thomas K. McGraw, *The Dynamics of Capitalist Revolutions* (Boston: Harvard Business School, 1995) (Case Note N1-796-100). McGraw’s central theme (pp. 1-10) is that “innovation and constant change [have always been] the defining characteristics of capitalist systems.” It was only in the middle of the 20th century, however, that “the introduction of new products became the hallmark of modern capitalism.”
3. Thomas J. Peters and Robert H. Waterman, *In Search of Excellence* (New York: Harper & Row, 1982), 14-16, chs. 7, 8; Rosabeth Moss Kanter, *The Change Masters* (New York: Simon & Schuster, 1983), chs. 5-7, 12.
4. Thomas J. Peters and Robert H. Waterman, *In Search of Excellence* (New York: Harper & Row, 1982), 15-16, 318-25. See

also Rosabeth Moss Kanter, *The Change Masters* (New York: Simon & Schuster, 1983), 175-77, 294-96, 358-63.

5. Nelson Polsby, *Political Innovation in America* (New Haven: Yale University Press, 1984), 161-65; James Q. Wilson, *American Government* (Lexington, Mass.: D.C. Heath, 5th ed., 1992), 436-37, 442-45, 617-18.

6. Hugh Hecl, *A Government of Strangers: Executive Politics in Washington* (Washington, D.C.: The Brookings Institution, 1977), chs. 2 & 5.

7. This is not to deny that politicians act on their values as well as their interests, and that they differ in their risk aversion. Nor is it to deny that they frequently support proposals with very narrow constituencies. It is to emphasize, however, that with rare exceptions, the politicians who win elections are sensitive to, and adept at calculating, electoral interests. So they are not likely with great frequency to take risks out of proportion to likely electoral benefits.

8. For a discussion of all six, see Alan A. Altshuler, "Bureaucratic Innovation, Democratic Accountability, and Political Incentives," in Alan A. Altshuler and Robert D. Behn (eds.), *Innovation in American Government* (Harrisonburg, Va.: The Brookings Institution, 1997), 38-68.

9. Malcolm Sparrow, *Imposing Duties: Government's Changing Approach to Compliance* (Westport, Conn.: Praeger, 1994), 107-12.

10. Michael Barzelay and Babak J. Armajani, "Managing State Government Operations: Changing Visions of Staff Agencies," *Journal of Policy Analysis and Management*, vol. 9, no. 3, pp. 307-38 (1990).

11. Other jurisdictions are also pursuing versions of this approach. I have focused on Indianapolis because it was early and remains an exemplar. For a more detailed account of the Indianapolis experience, see Howard Husock, "Organizing Competition in Indianapolis: Mayor Stephen Goldsmith and the Quest for Lower Costs," Parts A, B, C (Cambridge, Mass.: Harvard University, Kennedy School of Government Case Program, 1995); and Neal R. Pierce, "Here's an Alternative to Privatizing," *National Journal*, November 25, 1995, p. 2939. For a discussion of some others, see David Osborne and Ted Gaebler, *Reinventing Government* (Reading, Mass.: Addison-Wesley, 1992), ch. 3.

12. The following account is based primarily on an unpublished 1994 report by Robert D. Behn, prepared for the Ford Foundation - Kennedy School Program on Innovations in State and Local Government.

13. One consequence of this emphasis on constituency relations, it bears mention, has been the establishment of some unrealistic targets. The teen pregnancy rate, for example, which was 24.7 in 1980 and 19.5 in 1990, has a benchmark target of 8.0 for the year 2000. Unless the benchmark-setting process evolves over time to distinguish more consistently between aspirations and serious targets, this tendency may well diminish the potential of the benchmarks to serve as action-forcing stimuli and focal points of policy debate.

14. Governor Barbara Roberts chose not to seek reelection in 1994, but Oregon Benchmarks continues under her successor.

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