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Fixing Special Education

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To produce responsible and effective education for students with disabilities, we must provide schools with a set of balanced incentives that reward good performance while also keeping costs under control, but efforts to put the right kind of incentives into place have been hindered by a lack of understanding that incentives even play a role in this policy area. The strong emotions associated with providing services for students with disabilities clouds many people's thinking about how those services can best be structured to ensure quality while controlling costs. Powerful interest groups, including trial lawyers, special-education advocates, and teachers' unions, exploit and perpetuate these strong emotions, further hindering the adoption of efficient government policies for special education. As a result, the special-education system currently incorporates incentives that serve these interest groups rather than students. Specifically, the system rewards schools for placing more students into special education regardless of whether they are truly disabled; this is detrimental to disabled and nondisabled students alike. Research demonstrates that more efficient arrangements do exist for serving disabled students. Unless political barriers to the adoption of those more efficient policies are overcome, however, education of the disabled will continue to be dominated by costly and ineffective approaches.

A Brief History of the Problem

There is no doubt that the current state of affairs is a significant improvement over the state of education for disabled students before the 1970s. Until Congress passed the Education for All Handicapped Children Act—the predecessor of the current Individuals with Disabilities in Education Act (IDEA)—in 1975, disabled students were frequently denied adequate services by their schools and were sometimes denied services altogether. As the National Council on Disability describes it, “In 1970, before enactment of the federal protections in IDEA, schools in America educated only one in five students with disabilities. More than 1 million students were excluded from public schools, and another 3.5 million did not receive appropriate services.”¹

Before IDEA and its predecessors, the difficulty was not primarily one of ill will toward students with disabilities. Rather, the problem was one of incentives. Disabled students were often expensive to serve and usually did not generate additional revenues for schools. Under those circumstances, serving disabled students necessarily involved diverting resources from the education of other students. Most school districts were unwilling to divert their resources in this way, because doing so would hinder their ability to attract and retain general-education students.

Because school districts are in constant competition for students and the funding those students generate, schools generally could not afford to redistribute resources from less expensive general-education students to more expensive special-education students. Such a policy would tend to attract more special-education students seeking services, pushing up costs further, while also driving away general-education students whose education might be shortchanged, reducing revenues further. This kind of “race to the bottom,” as Paul Peterson and Mark Rom describe it in *Welfare Magnet*, is an inherent problem for any redistributive effort by local governments competing for tax base.² Special education before IDEA and its predecessors is a classic illustration of this phenomenon.

One solution to the problem of the race to the bottom, Peterson and Rom suggest, is to establish national standards for redistributive policies, thus preventing competitive pressures from undermining the ability of local governments to engage in redistribution. This is exactly what IDEA and previous legislation have done for special education. By mandating that all public schools provide adequate services to disabled students, and by allocating additional funds to help defray the costs, federal special-education legislation