

The Structure and Funding Special Education

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Few people think the “special education system” is working well. There is, however, less agreement about the exact problem behind the poor functioning. Many point to the overall expense and the possibility of draining funds from the regular education budget. Others fix on the steady expansion of students identified for special education. Yet others worry about labeling of special education students and particularly whether the stigma of labeling falls disproportionately on minority students. And, finally, a few are concerned about performance and the outcomes of special education for the students it serves. Thus, when it comes to discussions of reforms, the potential menu of ailments is large and, not surprisingly, there is disagreement about proposed solutions because many attack only a subset of the problems. Moreover, a variety of reform proposals, while fixing one element, may worsen another.

Summary Recommendations

A satisfactory system is possible only if the focus is moved to outcomes. As long as the main focus of special education is process and classification, it will remain an expensive regulatory knot that will continue to disappoint participants and policy makers alike. The fundamental alternative is to concentrate to the greatest extent possible on outcomes of special education.

Defining outcomes will itself require significant analysis and discussion and is an appropriate place for federal leadership. For some areas, such as the ever growing categories of learning disabilities, this objective is clearer and easier to meet. The traditional performance measurement instruments undoubtedly require modification for

other disabilities. It is important to define appropriate measures of outcomes, to employ them, and, as a by-product, reduce the current incentives to exclude students from accountability systems.

Outcome accountability should be linked with an effort to learn about effective programs and treatments. Little is currently done to assess the performance of programs for either disabled learners or regular education students. Improvement requires that good programs be kept and reproduced while ineffective programs are jettisoned. Such knowledge creation takes real effort and is a natural place for substantial federal leadership.

The federal government should assume responsibility for full funding of the most expensive students. The most costly students are almost always students where classification is straightforward, so full funding does not provide categorization incentives in the way it would with less well defined disabilities. This funding is essentially insurance for unusual but very costly students.

Lower cost services should be funded on a block grant basis with incentives toward high outcomes. The clear concern from past operations of the special education system is that incentives for classification drive up program expense without a relationship to performance. By funding independent of classification but concentrating on performance, the funding system does not distort the diagnostic system. Further, diagnosis should be more closely related to treatment options and things that aid in

improving student performance. Inability to define outcomes will nonetheless require some continued regulation of service provision.

Where specialized services and economies of scale exist, the funding and provision of services should recognize this. The best provision of services for students with different disabilities appears often to require specialized programs that are difficult to mount on a small scale (although as noted above there is considerable uncertainty about the optimal mix of services for different conditions). The emphasis should be on efficient provision of high quality programs regardless of specific location or provider (e.g., public school, private school, or charter school).

The outcome orientation implies that programs should be merged on objectives – such as improving early reading performance – and not designed to categorize on criteria that are not necessarily related to program and treatment options. As an extension to the previous recommendation, defining concerns in outcome terms points to merging programs that have common purpose – such as Title 1 reading programs and special education reading programs. Again, this applies for some specific areas but not others where the commonality of programs and objectives is less.

Background

Let me start with some underlying principles. First, the objectives of the original Education for All-Handicapped Children Act – the predecessor of IDEA – should not be forgotten or neglected in any reform. The special education system was instituted to

ensure that all children receive a full and appropriate education, regardless of any accidents of birth, development, or life that place obstacles in the way of their learning. While data are limited, it is commonly believed that before the federal legislation in P.L. 94-142, a number of students were not being served by the public schools for reason of handicaps. This neglect placed much of the burden of handicapping conditions on the students and their families and, for some portion of the population, led to removal of the children from the schools. Most would agree that society properly has a role in educating these children to the extent practical. Second, the incentives contained in the system should work to promote the education of these children. Importantly, I believe strongly that we should define “education” in outcome terms – the knowledge, skills, and cognitive abilities that are the core of schooling and that are important for integration into adult society. Third, the incentives should operate to promote the efficient use of society’s resources. In particular, we should work to produce these educational outcomes at the least cost possible.¹

These three principles – equitable provision of education to all children, providing incentives to produce educational outcomes, and designing an efficient system – guide this entire discussion. Let me start then with my views of the current system and turn to what institutional changes might deal with the largest of these problems.

The growth in expenditure for special education is difficult to identify with precision, but it is clearly significant. Virtually any program dealing with special education will cost more than regular education programs because extra evaluations and

¹Note: efficiency does *not* mean simply reducing expenditures. The smallest expenditures would come by doing nothing and spending nothing. It means achieving a given outcome at the lowest possible expenditure, or, equivalently, producing the largest possible learning outcomes for any given level of expenditure.

services are involved. Some, however, are relatively close to regular education while some are wildly more. Moreover, since special education has separate categorical funding streams, incentives to place additional students in these more expensive programs frequently – but not always – arise.

The mere fact that these programs cost more than regular education is not grounds for indicting the current programs. If these expenditures were efficiently translated into improved student learning, the only issue would be whether society should invest in these particular children as opposed to others. The strong suspicion is, however, that these programs are not efficient and leave open both performance and equity issues.

One particularly important cost issue is the effect of special education programs on the other programs of school districts. First, special education expenditures take precedence over the regular education programs, because the federal law makes treating identified students a mandatory item. This approach is perhaps appropriate if special education continues to be viewed as a civil rights issue, but it is open to more question if viewed as one feature of an educational policy issue. Second, some school districts – particularly smaller districts – cannot easily anticipate and deal with the occurrence of extremely costly special education students. These students, often having very serious multiple conditions, generally appear as random events to the district, and the district has little capacity to deal with either the condition or the financial ramifications of it. Its only option is to find extra funding to deal with costs above any state or federal reimbursement and to reduce other programs to the extent that the excess special education expenditures cannot be covered. Such a situation – low probability events with high costs – is an

obvious place for the district to seek insurance, and it is natural for the federal government to pool risks across the population by providing such insurance.

What leads to concern about efficiency of the current program? Until recently there has been very little attention to anything having to do with outcomes for classified students. The frequent exclusion of many special education students from state accountability systems is well-known. Little thought has been given to collecting systematic performance information about outcomes in special education. Thus, it would be remarkable to find that the current system was efficiently producing enhanced learning outcomes for classified students. This is not to say that the program fails to provide any educational benefits. Indeed, my own research finds that, in the example of Texas programs, special education students generally gain from programs for them.² But without regular assessment of student outcomes, there is little basis for believing that the best programs are currently being employed or that the outcomes are related to the costs, as one would want for efficient production.

This concern is reinforced by the fact that classification rates vary with the financial incentives provided to school districts.³ The fact that decisions are made partially by the reimbursement rates and not by the efficacy and costs of programs for individual students implies a further inefficiency: treatments are being dictated by distortions arising from the fiscal system.

² Eric A. Hanushek, John F. Kain and Steven G. Rivkin, "Inferring Program Effects for Specialized Populations: Does Special Education Raise Achievement for Students with Disabilities", *Review of Economics and Statistics* (forthcoming).

³Julie B. Cullen, "The impact of fiscal incentives on student disability rates," *Journal of Public Economics* (forthcoming).

Elements of an Altered System

Outcome orientation. Perhaps the largest problem pervading the entire system is the general lack of an outcome orientation. The current system, built on an adversarial civil rights model, has not focused on goals and outcomes for students with varying disabilities or deficits. Thus, for example, classification takes precedence over demonstrated performance. There has been some movement toward paying attention to results, in part driven by concerns that special education exclusions were affecting the regular education testing and accountability systems. But the focus on outcomes has yet to take over the special education system.

In many cases this would involve a direct reorientation of the system. For example, many students identified as having learning disabilities could be assessed with existing reading tests. In other areas, the existing testing and assessment protocols will undoubtedly require substantial modification. While this is outside my area of expertise, I think that this will require a variety of research efforts. Simply put, existing or slightly modified testing may be appropriate for a variety of students currently classified with learning disabilities or emotional problems but not for severe mental retardation.

The simple meaning of an outcome orientation is that school districts will be held responsible for outcomes and will be rewarded on their ability to achieve desirable learning objectives for students. This direction holds for both special education and for regular education. Indeed, it is difficult to do one without the other.

The clearest example is reading instruction, a central but recent focus of federal policy. Rewards should be given for schools that have high performance on reading without being distorted by special education classification. To the extent that much of

the learning disabled population is related to reading performance and that diagnosis and treatment of reading difficulties often precedes any ability to classify students under special education, schools should begin treating the reading problems.⁴ They should be diagnosing the causes of any reading difficulties continuously to the extent that the diagnosis provides useful information for treatment.

At the same time, we appear to be quite a way away from an ability to define and measure outcomes across all areas of disabilities. As a result some period of phase in to a new orientation will be required. Specifically some maintenance of services and regulatory elements will be needed now if not over the long run. The regulatory approaches would nonetheless be designed in relationship to an outcome based orientation.

Fiscal adjustments. As noted previously, the possibility that a district will be faced with a large stream of expenditures related to an extremely expensive disabled person is something that most districts, especially small ones, are not prepared to absorb. It is natural to think of insuring districts for these expenditures. Two aspects of this are important. First, since insurance is pooling risks across the insured population, it is reasonable for the federal government to take on this responsibility. While many states or even the largest districts could have large risk pools and could take on the task, it remains efficient for the federal government to do this. Moreover, it is also possible to argue that the federal government should pay for this, although it is also possible that

⁴ G. Reid Lyon and Jack M. Fletcher, "Early warning system: How to prevent reading disabilities." *Education Matters* 1,no.2 (Summer 2001); G. Reid Lyon, Jack M. Fletcher, Sally E. Shaywitz, Bennett A. Shaywitz, Joseph K. Torgesen, Frank B. Wood, Ann Schulte, and Richard Olson, "Rethinking learning disabilities." In *Rethinking special education for a new century*, edited by Chester E. Finn, Jr., Andrew J. Rotherham and Charles R. Hokanson, Jr. Washington, DC: Thomas B. Fordham Foundation and Progressive Policy Institute, 2001.

states could pay a portion of the implied insurance premiums. Second, it is important to avoid having this insurance affect the behavior of the insured districts, i.e., to avoid moral hazard problems. Thus, it is natural to define covered students in terms of specific disabilities and to pay a fixed amount for specific disabilities (as opposed to the actual expenditures of the districts). The most expensive students to treat appear to fall into set categories where the definitions and inclusions are not expected to be related to the insurance by the federal government. Similarly, whenever there is reimbursement for actual expenditures, there is not incentive for the local district to conserve or to make efficient decisions on the provision of services.

Beyond the most expensive conditions, the fiscal system should not provide incentives to change the population that is eligible. As discovered in past operations, conditions that are difficult to define precisely – such as many aspects of learning disabilities – permit latitude in classification, and districts will respond in their classification to the incentives they face. The best way to deal with the incentive problem from a fiscal standpoint is to provide nondistortionary grants to districts, i.e., payments that were not dependent on the classification and thus that do not change the “price” for identifying special education students.

The issue of classification will not, however, go away soon, or maybe even forever. Most importantly, we do not currently understand how to structure incentives to make sure that we properly serve all students. If the costs of meeting any outcome standard exceed the direct rewards, schools are likely to direct treatment toward other students. This decision making could be desirable if we are confident that we have the rewards matching the values and objectives of society. But without experience and a

debate held in the context of how schools respond, we probably will not be confident that we have hit the best incentive system precisely. In particular, if the initial reward system left a clear portion of the disabled population underserved, we almost certainly would not be particularly pleased. Thus, for example, after we have served identified reading problems as well as possible, we may still wish to oversee whether any special populations remain underserved. This implies a continued regulatory aspect, although not the current one.

Service provision. Some debate has centered on how to provide services for disabled students. One aspect of this has centered on the availability and decision making by current “choice” schools. It has been asserted that, if students can choose charter schools or other alternatives to the regular public schools, they should not be permitted to exclude special education students. The arguments for this are generally ones of making sure that charters and choice schools are handicapped financially. They are seldom made in terms of serviced quality for disabled students. On the other side, some private suppliers have begun to provide services for disabled students. These suppliers often believe that they can provide services more efficiently than the public schools and thus can profitably supply these services. At this point, the arguments frequently flip, pointing to how private suppliers should be precluded from the market.

The only principle that seems relevant is who can provide the best service for any given expenditure. If there are economies of scale in providing specialized services – as there almost certainly are – it does not make sense to require small charter schools to accept any disabled student who appears, because these students are unlikely to receive the best possible services. Similarly, if private schools position themselves to provide the

best services, they should be permitted to do so. The choices in fact should become clearer when coordinated with an emphasis on student outcomes. The arguments for regulating the provision of services generally ignore any potential outcomes for individual students and instead are attempting to achieve other objectives that are not related to special education students.

Other issues. Much of the discussion of special education builds on rhetoric, assumptions, and hopes rather than on solid information. This lack of information about programs and costs is a direct result of not assessing student outcomes and of not using information about program results to learn about how best to supply services. This remark is largely true for regular education programs also, but is more clear in the case of special education. For example, while the previous discussion centered on possible economies of scale in service provision, the reality is that we do not know much about optimal program size and mix.

Improvement in the performance of schools, especially with respect to disabled populations, depends on improving our knowledge of program operations. An automatic feature of any improved system should be the gathering and analyzing of data on student outcomes as they relate to treatments. Some of this will automatically come if schools are rewarded on the basis of their performance. But the development of knowledge and information is rightfully a role of the federal government. Individual schools will not consider that all schools can learn from the experiences and thus that the benefits for new knowledge will exceed just what they gain from their own decisions. The federal government can and should recognize these spillovers of knowledge. The implication is

that the federal government should take primary responsibility for research into special education programs.

One detail is also necessary. Special education programs are particularly difficult to evaluate. Clearly students who are identified as disabled by definition differ from regular education students. Therefore, it does not make sense to compare outcomes of special education students in particular programs to outcomes of regular education students – because the two groups are not comparable. It is sometimes possible to compare performance of the same student when in regular education versus when in special education programs, but this leaves certain ambiguity.⁵ One highly valuable approach is to provide for random assignment of individual students to different treatment programs. Such an approach permits clearer investigation of the efficacy of alternative programs. For a variety of reasons, development of random assignment experiments in service provision are unlikely to move forward very much without a strong and explicit policy to do so. On this, the President’s Commission could be especially important and powerful.

Conclusions

This Commission exists because there is widespread belief that one or more aspects of the special education system are broken. The belief that things need to be fixed does not necessarily make it easy to arrive at a good solution. In my opinion, success is going to require more structural changes rather than tinkering around the edges. Achieving these larger changes may in fact be easier than more marginal

⁵ See Hanushek, Kain, and Rivkin, *op.cit.*

adjustments, because the more marginal adjustments offer little hope of meeting the multiple concerns with the operation of the current system.

The most fundamental need in the whole area is focusing attention squarely on the outcomes of schooling for kids. While there has been some movement in this direction, it has not gone nearly far enough. The current approach has been to layer attention to outcomes on top of a highly regulated system.

Attention to outcomes implies developing learning outcome standards and goals for all students, not just those in regular education. It involves developing improved measurement and tracking of outcomes. And it involves rewarding schools for achieving improved student performance.

A good part of this implies working in parallel on the regular education and the special education system. For example, promoting early development of reading skills in all students involves early diagnosis of any deficits of individual students so that programs can be mounted to deal with them. This is very different from waiting until some latter point in schooling and deciding whether there is some specific learning disability as currently described by law.

A second fundamental change is altering the fiscal incentives away from classification and toward performance. Providing block funding for special education based on overall demographics as opposed to specified but vague legal conditions has very different incentives for schools. Such funding, however, cannot adequately recognize the possibility of unusually large expenditure demands by the most afflicted of disabled students. While the larger states and the largest districts may be able to plan on the risks of such high expenditure students, it is simply not possible for all districts to do

so. It is therefore sensible for the federal government to take over responsibility for the support of the fiscally neediest students. These students, whose condition is generally unambiguous, may be a small portion of the current special education population (say, one to five percent) but they represent a large portion of the total expenditure demands. Ignoring the fiscal problems related to these students can only prolong the dissatisfaction with the current system from virtually all sides.

Finally, the difficulty of policy design in this area directly relates to lack of knowledge about key elements of education. Little is known about the optimal configuration of programs to achieve given learning objectives. Any long run improvement in the system must involve a substantial federal commitment to research and evaluation of educational outcomes for the disabled.