I know a State in New England now that has neither a sales nor an income tax, which is very anxious to acquire money for building new roads, while at the same time, it's educational system is really in such a shambles that teachers are fleeing to other areas.

Senator PERCY. Isn't this a strong argument for giving States a discretionary power to decide what they need to do? Some States have put a tremendous emphasis on education, others on mental health. Some States may have let their highways deteriorate but to force every State uniformly to spend these additional funds on earmarked items does not take into account the diversity of decision-making that has been taking place all along.

Mr. ULMER. I would not suggest this. I would rather suggest the establishment of some Federal standards relating to the quality of education, and then provide the money required to see that these standards are fulfilled. If States already have them they would not need these funds. If they do not have them they would need them. This I call target financing rather than hopefully, prayerfully distributing money, and expecting that maybe it might go into the right things.

I have in mind a point made by Mrs. Griffiths earlier about the heterogeneity of the States. They have many, many different needs, and many, many different aptitudes and a strict formula of this kind does not do justice to that heterogeneity.

Mr. PECHMAN. May I respond to Mr. Stein's point about the proportion of the money that would go into State-local services? This is really a matter of judgment.

If, in fact, one could notice from the figures a cessation of the growth in the ratio of State-local expenditures to total GNP, then I think he would have a point.

But the fact of the matter is that the ratio has been growing, and we know there are identified unmet needs. I have a great deal of faith that, if the additional fiscal resources were provided, practically all of it would be used for State-local services. This would be one way of achieving a new plateau, a new level, in the ratio of State-local services to GNP.

There is no way to prove this, but I think it is clear that assistance of this sort would be not only welcomed, but used.

The other point is that the Stein point applies to income tax credits as well as to——

Mr. STEIN. Oh, no, because the income tax credit changes the terms of the choice.

What is going on in the States every year is a struggle between the people who want to spend more and the people who want to use more of the additional income earned by the people of the State for their private purposes, and this struggle results in a certain division. That division comes out at the margin, that is with respect to increases in the income of the people of a State, so that they characteristically decide they will devote 20 percent to public and 80 percent to private purposes.

I am saying that this same kind of struggle is going to go on about this additional $6 billion that you put into the States that goes on with respect to the additional income that the people earn.

But the tax credit system changes the terms of that struggle because it says, "Now, if you will collect or pay $10 million more of