

## GOVERNOR ANGUS W. McLEAN TALKS TO NEWSPAPER MEN

### State Press Meeting at Asheville Honor- ed By Presence Governor

### Says "Headline Writ- ers Control Pub- lic Opinion"

(Continued from last week.)

Extracts from address delivered by Governor Angus W. McLean before the North Carolina Press Association at Asheville, N. C., on Thursday, July 9th, 1925:

Governor McLean said in part: The financial statements which the Governor as Director of the Budget submits in support of his recommendations should be complete and presented in such forms as to be easily understood not only by the General Assembly, but by the public as well.

Under the new Executive Budget Act adopted by the last General Assembly, the Governor will have the first opportunity in the fall of 1926, to prepare for submission to the General Assembly which convenes in January, 1927, a complete budget covering all appropriations which are to become effective on July 1, 1927.

Because the Executive Budget Act was not in effect previous to the meeting of the last General Assembly, it was impossible for the present Governor to submit a complete budget program to that Assembly.

In justice, however, to the members of the old Legislative Budget Commission, which prepared the budget for the last General Assembly, it should be said that they performed very constructive and meritorious service in their recommendations made to the General Assembly of 1925.

The Executive Budget Act adopted upon my recommendation by the General Assembly of 1925, became generally effective on July 1st, 1925, and will cover the fiscal year beginning July 1, 1925, and ending June 30, 1926, and all subsequent fiscal years.

(b) Another proroquisito of the successful Budget System embodied in the North Carolina law is the permanent Budget Bureau, making the Budget System a permanent supervising department of finance, with the Governor as director.

The method by which supervision over all the spending agencies of the State will be maintained by the Budget Bureau is as follows: After the appropriations have been made by the Legislature and each spending agency knows how much will be available for it to expend, estimates of the way in which it is planned to spend the money must be submitted to the Budget Bureau. These estimates, which are prepared by every institution and department, show the amount and the distribution of the contemplated expenditures according to a standard classification, and in this way it will be ascertained how much each agency intends to spend during the entire biennium, the next fiscal year, and the first quarter of the first year, for personal services, supplies, etc. They will also show the estimated revenues both of the general funds and the

special funds. Each department and institution will prepare a budget for its own operations and submit it to the Budget Bureau for approval.

With these biennial estimates is a request for quarterly allotment. This allotment sets the limit on the amount of the appropriation that can be used during the quarter. If unexpected circumstances arise and some institution needs more money, it can make a special request to the Budget Bureau, which will allow an increase in the allotment if it considers the reasons adequate and the appropriation available for the particular institution will justify it.

Not only the appropriations made by the General Assembly, but also the special revenues collected by any institution or department must now be deposited daily to the credit of the state treasurer. Formerly, these special revenues were deposited to the credit of the institutions themselves and spent as desired. This meant that no supervision could be maintained over these expenditures, as the amount of the special revenues or the expenditures from them was not known until after the expenditures were made. In the case of some of the institutions the only supervision at all was the annual audit. Now the special revenues are credited to the institutions depositing them, so that an institution may spend during the quarter its allotment plus its special revenues, but the special revenues will be spent before the appropriation.

As a means of insuring that these budgets are being lived up to by the institutions and departments there will be a monthly expenditure statement submitted to the Budget Bureau at the close of each month during the year. It will have the actual expenditures of the month, distributed according to the same classification as that used in the estimate sheets. This will permit the Budget Bureau to compare the actual expenditures with the estimated expenditures and the available appropriations and thus see to it that the spending agencies are living within their income. Any large discrepancies will be investigated and explanations asked. In the past some institutions spent so much of their appropriations in the first few months of the year that they would be in straightened circumstances during the last months, or would incur deficits by overspending their appropriations.

The supervision exercised by the Budget Bureau which has been described so far is largely negative in character. Its objective is to prevent an operating deficit in the general fund of the State, to prevent institutions and departments from exceeding their available appropriations, and to prevent them from spending too freely in the first months of the year and starving in the last.

The Budget Bureau has a more positive side in that it will assist the State agencies in operating economically and efficiently. Its official personnel acquainted with modern business methods and with the affairs of all the state agencies, and thus with the conditions of the State as a whole, will make surveys of the working of the various institutions and departments from time to time for the purpose of offering helpful and constructive suggestions.

If, for example, it should develop that a certain institution is spending a much larger percentage of its funds

for heat, light and power than similar institutions in the state elsewhere, the Budget Bureau can investigate to see if the excess is due to insurmountable obstacles or to an inefficient plant system. Investigations of this nature will enable the Budget Bureau to see that the State Institutions are kept abreast of the practices elsewhere. As a result of the information accumulated in its investigations, the Budget Bureau will also be in a position to assist the institutions and departments in handling their other problems. Duplication in work will be revealed and means of coordinating activities will be suggested. All these considerations will be of assistance to the Governor when he formulates his program for the following biennium for submission to the General Assembly.

From the time that the State Government was established, the principal departments and many of the administrative commissions, boards, and other agencies of the state were not operated on a fixed appropriation basis. There were some 75 statutes on the books authorizing money to be paid out of the State Treasury for various purposes by the departments and other agencies without limit as to amount. These general statutes allowing money to be spent for specified objects without limiting the amount of the expenditures, necessarily resulted in uncertainty as to the amount of the total expenditures by the State for any one year. This made it practically impossible for the Legislature to prevent the total expenditures from exceeding the total revenues within the fiscal year, or the biennium for which the appropriations were made and the taxes assessed. It was thus impossible under the old system to have a balanced budget, which is absolutely essential in any scheme of sound fiscal policy.

As a part of the Executive Budget System, the Legislature declared it to be the policy of the State to maintain a balanced budget to the end that total State expenditures should not exceed the total income of the State within the fiscal period. In furtherance of this policy the Legislature repealed all statutes allowing general and unlimited appropriations and placed every department, institution and other agency of the State upon an appropriation basis. A provision was inserted in the appropriation bill giving the Governor as Director of the Budget power to reduce all appropriations pro rata when this appeared to be necessary to balance the budget and to bring the total appropriations for all purposes within the revenue actually collected within the fiscal period.

I have not found anyone who can make the slightest objection to the principle involved in the System. The only objection I hear is, that it entails a change from the old methods of administration of the fiscal affairs of government which were in force when the state spent for all purposes less than an average town in North Carolina spends today. It is true that there are a very few officials and state employees in North Carolina who object to this system, because it will take some trouble to install it, and because it results in discarding old methods to which they have become accustomed, and lastly, because it results in placing a reasonable check upon the spending of money. Fortunately, the group which is inclined to object and to discourage the adoption of the new plan are so few in number and so timid in voicing their opposition that it is becoming more and more difficult to identify them.

A typical practice on the part of those who are opposed to modern

methods in government is to try to make it appear that the Executive Budget System lodges too much power in the hands of the Governor. That is always the favorite method of the reactionary and the demagogue.

As a matter of fact, the Governor has no power except that which the General Assembly, as the representative of the people confers upon him. The work of the Governor in preparing and submitting to the General Assembly a program for raising revenue and making appropriations for the conduct of the State Government is recommendatory only. He develops the facts and presents them to the Legislature with his recommendations. The Legislature can adopt them either in whole or in part or reject them entirely, and the only recourse the Governor has is the power of public opinion to which he can appeal, and, I believe, appeal successfully, if he can convince the people that his program is sound and for the best interests of the State.

In carrying out the plan, the Governor is the servant of the people and not their master.

All students of democratic government agree that while democracy is the best form of government, it cannot function successfully unless adequate machinery is provided, whereby the people in whom is vested all power can effectively exercise the sovereignty vested in them.

The Executive Budget System which became effective on the first day of July was enacted by the General Assembly, not because of the personal influence of any person, but because it was approved and demanded by the articulate voice of the masses of the people of North Carolina.

(2) The Daily Deposit Act which requires all of the revenue collecting agencies to deposit all revenues belonging to the State in some bank to the credit of the State Treasurer daily, instead of permitting those agencies to retain the money for a month or more, as has been the practice heretofore, will undoubtedly, increase the available cash in the hands of the Treasurer for current operations, and will, in the long run, save the State quite a substantial sum in the way of interest.

(3) Another most important measure was the enactment of a law consolidating all the principle revenue collecting agencies of the state under the Department of Revenue. Under

this plan the Commissioner of Revenue collects all the general fund revenues of the state, as well as all special revenues, including those applicable to the maintenance of the State Highway System. This consolidation of the tax collecting functions under one department has already brought about considerable saving by reason of the fact that it has eliminated much duplication of labor and expense in administration. Complete results, however, cannot be obtained within the first few months for the reason that it will take some time to bring about complete coordination and eliminate overlapping. I believe that after the first year of operations under the new plan quite a large saving will result.

(4) Another very important measure was enacted in respect to the lapsing of appropriations made to departments and institutions by preceding General Assemblies. Under the old system appropriations for maintenance made to the departments and institutions did not lapse on June thirtieth, the end of the fiscal year but continued to be available under certain

conditions after June thirtieth. Under the new law all appropriations that have not been paid out by the Treasurer at the close of business on June 30th of each year will lapse, and whatever sums are on hand unexpended, revert to the general fund in the hands of the treasurer. The institutions and departments must now close up the old years business on June thirtieth and begin the business of the new fiscal year on July first. In the past many of the institutions have been in the habit of overdrawing their maintenance appropriations and closing the fiscal year with a deficit. This practice often caused deficits in the general fund of the state and resulted in some of the institutions having to spend a part of the appropriation made for the new biennium in paying accounts and other obligations incurred in the last month or two of the previous fiscal year.

(Concluded next week.)

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