

Governor McNair Oral History Project
South Carolina Department of Archives and History

Interview

with

Robert E. McNair

Interviewer:

Cole Blease Graham

Date:

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CBG: This is Tape 13, Side 1, an interview with Governor Robert E. McNair as a part of the McNair Oral History Project of the South Carolina Department of Archives and History. Today's date is November 30, 1982. Governor, as a key figure in South Carolina economic policy, how did you get good information about the future of the economy and the impact of the national economy on the state's economy?

REM: Well, unfortunately, I discovered that the only forecasting we had was from the State Tax Commission. That was forecasting revenues. There was no real scientific look at the economy and the impact of what was going on nationally or internationally, for that matter, on South Carolina. Historically, we had just asked the Tax Commission to tell us what the revenue estimate would be for the following year, and we worked off of that. It bothered me that that estimate would, you know, sort of change--it looked [chuckles]--with the politics of the occasion sometimes. We used to say, you know, that we had to really get more than guesstimates.

So, you know, coming along at that time and being close to [James A.] Jim Morris and his being one of my close advisers, we began to talk, and Jim had long wanted and pushed for something like a board of economic advisers, economists, people who really studied and understood the national economy and who studied and understood the state's economy. What we did then was to come up with the economic advisory group headed by him, and we asked them to do the economic forecasting. From that we would then do the tax forecasting, whereas previously we had nothing but, "The revenues last year were so much. We estimate they'll be eight percent or ten percent more next year." Fortunately, it worked most of the time because we were a growing state, and quite often the revenues were more than we estimated. So we'd end up with a surplus, and that was a very fortunate thing.

When we got into this, one of the difficulties was to then convince the Tax Commission that they were no longer making these kinds of forecasts on the economy and that the forecast on the economy and the revenue was going to come from the Budget and Control Board based on the advice of the economic advisers. We had a constant little struggle between the two as to who was making the official forecast for the state, but that was a simple problem to resolve.

CBG: How did you resolve that problem?

REM: We simply told the chairman of the Tax Commission that he was a member of the Board of Economic Advisers and that we would make announcements based on that group's recommendations to us as to what the economy looked like and what the revenues were going to be.

CBG: Did the Budget and Control Board have to develop a new staff in order to do this?

REM: Well, with Jim Morris, of course, he pulled on the University [of South Carolina], the Bureau of Research, he pulled on a section of people we didn't know we really had in the Employment Security Commission. A wealth of information coming down to them. None of us had ever made much use of that. So Jim pulled all of that together and immediately recommended that we establish a research and statistical division within the Budget and Control Board to correlate and coordinate all of this. We did do that and brought in [Thomas P.] Tom Evans, who I didn't know but was nationally recognized as a statistical leader in this field and had been up in the Employment Security Commission, hidden away. So with that resource available then we began to really do more studies and get more in-depth reports on what we could expect.

It was interesting to watch how South Carolina reacted to things at the national level or how something happened that impacted on South Carolina. For the first time, I think, we all began to understand a little better. I used to say, you know, having served in the legislature as long as I did, how good it would be if we could have some sort of economic summit for members of the General Assembly and bring in these economists and let them really go through that exercise of talking about how the economy works so they would understand better.

CBG: Yes. They finally started doing that in the late 1970s.

REM: Right.

CBG: Early 1980s.

REM: They finally started doing it, yes.

CBG: What were some of the kinds of information that you got? Was it more frequent information?

REM: Yes.

CBG: Did it include things other than just state revenues?

REM: Oh, yes. You know, we looked at a lot of things. For instance, we could look at what was taking place in agriculture, what was happening at the national level as far as congressional action and policies coming out of Washington. With Clemson's help then and this group working, we could determine what we thought was going to happen or what we needed to be aware of and conscious of. Industry, different

segments of industry, textiles, we watched go up and down, and with this we began to forecast it was going up and down, and we sort of would anticipate those dips that would come from things that were happening internationally, which none of us had ever really paid any attention to or thought it affected South Carolina.

In the whole overall economic thing, we could look at various segments and see the problems coming, when there was an automobile strike. We don't produce automobiles, but we produce one heck a lot of the component parts that go into the automobile, and we produce most of the fabrics that go into the upholstery of automobiles. So, you know, when you saw that, you anticipated you're going to have a problem down the road.

On housing, we never really paid a whole lot of attention to national figures on housing starts, but we were so heavily into the wood products and all of that and provided such a vast amount of that, that when housing starts were down, we just knew we were going to have trouble because the saw mills and lumbering operations and plywood plants and all were going to be curtailed. All that at that time followed behind. We were rather fortunate because we lagged behind the nation. Right now, we're sort of ahead of it because of the great impact on textiles, but generally we would say we had lag time. We had warnings. We could see it coming, so we had a little better opportunity to prepare for it.

CBG: These lagging indicators helped in terms of revenue management. Did you have a similar opportunity to use these kinds of facts and figures to anticipate expenditures? In other words, if you were going to see a dip in textiles, could the Budget and Control Board begin to make recommendations through agency activities to help cushion that blow?

REM: Well, you know, of course, we didn't fund the unemployment program.

CBG: Yes. That was federal.

REM: But that was a good barometer. By looking at it, you could tell the impact that it might have on other state programs. At the same time, you could see things coming and probably gear up in certain areas, your training programs and all, to retrain some of these people, to try to help them find other jobs, to prepare them for other things. It also helped us in our industrial development program because we could see the target problem areas. In the past we'd sort of operated on the basis of, "You build a plant in this community, and that's yours. If somebody else comes along, we'll put them over in another area for theirs." The textile industry had the piedmont pretty well under control, really. It dominated and still does, but it totally dominated then, and they really were reluctant for other industries to come into that area. They provided all the jobs that were necessary, and they were concerned about competition for labor. As we began to see

things happen in the textile industry, you know, we began to recognize that that had to change. Even some of them changed and got aggressive with us in bringing in General Electric and bringing in the fibers, which was related naturally to the transition, but also bringing in some heavy industry, different kinds of industry to help take up the slack there. I found that, when we looked at these kinds of things, particularly helpful when we looked at our overall economic development program.

CBG: How important is it to separate out operating kinds of expenses from capital expenses.

REM: Very important. And that was something we had not done before. We sort of had one budget, and we'd put what we call recurring, ongoing appropriations, nonrecurring matters, bond issues, all right into the same thing. As we looked at this, we determined we needed to begin to separate. So what we started trying to do was to get a fix on what it cost to run state government on a ongoing basis and then what the annual increases were going to be if we did nothing more than operate at the same level of services, no expansions, no improvements, but at the same level. People don't realize that the cost goes up even if you maintain that same level of services with no improvements, no expansions. We got a fix, then, on what that cost was so that when we looked at budgeting, we said, "Okay, to continue to operate at the same level we are with the ongoing program, it's going to cost us a certain percent more, and that means so many dollars. So we have to have that, and that's locked in."

Then you look at the other things that you want to do that are one-shot, one time, or capital expenditure, and we decided we had to begin to take those things out, that we could no longer afford to pay for everything as we went. I think we thought that that had more of an impact on our triple-A credit rating than it really did as we discovered when we did studies. We felt if we paid as we went--if wanted to build a building, we appropriated \$3 million and built the building--that that really was helping us. We weren't using our credit rating, and we soon discovered that we couldn't do all the things that had to be done and continue on that basis. We had to find a better way to do it. We either had to get more revenues, or we had to change our method of financing and change our priorities in some instances.

That really is where we got in again with Pat Smith, who was the state auditor, Jim Morris, Grady Patterson, the treasurer, all of us working and thinking together. We sort of got a grip on the economy, and we'd get a feel when we could look a year or two out and sort of determine what South Carolina's going to be doing and what resources we expect to have available. Then, we looked at what we really needed to do and then began to determine how we could do that, if we could afford to do these things. That's where, with the research and statistical information we had then by taking a look at what all we needed and then pulling in the Moody people to work with us, with our financial folks and everybody else, and whether or not South

Carolina could really deal with all of these problems, whether we could afford to do some of the things that most of us felt had to be done if the state was going to move forward.

CBG: What is Moody's and what did they do in that famous Moody Report?

REM: Well, Moody's was a rating bureau. That's one. Standard and Poor's and Moody's were the two premier rating agencies, and they, as most people think, do nothing but rate municipal finance, corporate finance, and things of that nature. They'd look at the state government, look at its financial structure, look at its political climate, look at the way it does business, its fiscal responsibility over the years. They'd look at the leadership of the state and determine whether a bond issue should have what is triple-A--that's the highest you can get--or any rating down below. They rate you periodically, just as they do corporations going out to issue long-term financing. Even short-term sometimes will have a rating, and that rating determines to a large extent what the interest rate is going to be. So it's very critical to you.

CBG: The lower the rating, the higher the interest.

REM: That's right.

CBG: Yes.

REM: So when you're dealing with the kinds of money that you're dealing with at a state level or at a major corporate level, you're talking about millions of dollars on just a slight change in a rating. If you get one or two points, up or down, on your interest rate on a \$100 million bond issue over a twenty-year period, it's an awful lot of money involved.

CBG: A lot of sales tax revenue. [chuckles]

REM: That's right. So it's very critical. That's money that is coming out of your operating budget to go to debt service. Every million dollars you saved on debt service you could put into a program to improve education, or improve health care or something of that nature. So you had to be very conscious of the cost of money. Nobody much, I don't think, until along in the sixties, focused on the cost of money as a operating expense, just like the cost of running a school or the cost of running a TEC [Technical Education] center. The cost of debt service was a budgeted item.

So when we got into that, we brought Moody's in and sat down and talked with them and said, "Look, you know, you've been close to us. You know South Carolina." Moody's was more than a rating service. They have other divisions that do other things, consulting work, financial consultants and all of those kinds of things related to the financial business. So we said, "We would like for you to come in and bring in your experts and serve as financial consultants to us now because you know our attitude toward our triple-A credit rating, you know how we feel about fiscal responsibility, you know we've got a constitutional mandate on balanced budgets. Would you agree to come in and serve as the financial consultants to us, to take a hard look at South Carolina, to take a look at all these needs that we've outlined that we have, and help us determine whether we could afford to do these things, and, if so, how we can do it and not jeopardize the state's credit rating because that's going to cost us money?" They had never done that before. We were a guinea pig and we got a surprising reaction. They went back to their people, and it excited them. So they said, "You know, we'd love to do that, and South Carolina would be a good place because we know as much about you as anybody else."

For the first time, Moody came in, and they brought in the Campus Facilities group out of Denver, Colorado, with our concurrence--because we knew them, too--to do the studies on the programs and to quantify and all and talk about it and deal with the numbers along with them. So Moody's took the lead with Campus Facilities, Warren Rovetch, who was one of the most brilliant planners and programming-type people that I've ever experienced or known.

They got in and took a look at, just, South Carolina, really. We'd begun to develop information on, you know, the number of people that we had who'd dropped out, as I said, in the eighth grade, or had more than an eighth but less than a twelfth grade education. We had them getting into the information system in education to determine the first grade repeaters, he dug all that kind of stuff out. Nobody had ever focused on that. He began to sit down and say, "Look, you've got a certain percentage of first grade repeaters. If you can cut that down by a certain amount, you can start your preschool, and your reduction here will pay for it there. So it's not going to really cost you any money except start-up costs." He ran through those kinds of things with us and talked about everything from the need for preschool, to cut down the repeater, to cut down the dropout rate--the retention rate was terrible--what we could do to build in some adjunct education programs when that word came in, to broaden and expand the adult literacy, to take the TEC schools and really accelerate that program statewide, but to make them technical education centers not colleges, which surprised me because there was a group you would have thought would have been more in tune. They said for South Carolina you're not ready for that yet. You need the occupational training.

They looked at transportation which surprised us and got us to thinking that the transportation system was the one that determined the growth patterns of the state. You could really build roads and things and determine where your growth was going to be. Airports were being built, you know, just wherever the

Airport Commission wanted to put them, and the port was doing its thing, but nobody ever talked about the highways and the ports and the airports sort of sitting down and talking together and trying to coordinate their efforts and cooperate in developing a transportation system. There was just a myriad of things. They got into the need for and got us into space utilization studies for the first time. We brought in a group that did space utilization studies on the college and university campuses because they were screaming for more buildings. We discovered some had enough, some didn't have enough, some were utilizing their facilities to the maximum and beyond, some were not utilizing them at all.

We were into computers. Again because of the involvement of all of this, we looked at information systems and did a little study to find out who had them. We didn't even know who had them at that time because the agencies operated autonomously and how much they were utilized. We found one agency that had a big computer system and used it two hours a day. We found another one had one that they were using eight hours. They thought this was the maximum. Information we got was if you aren't using them at least two shifts, you don't need them, you shouldn't have them, and you aren't using them. So we began pulling things together and coordinating.

The Moody Report then went on into health care, as everybody knows, to take a look at medical education, a practical look at the number of doctors we were producing as opposed to the retention rate. That told us our real problem was not in educating the doctors but was in retaining those, that we didn't have the medical centers for them to come out of the university in Charleston to do their residency or any of that. They were going to Cincinnati or to Baltimore or wherever those major medical centers were, and then we weren't getting them back. So we were, in effect educating doctors for the rest of the country. We needed to put our attention on medical complex centers. We needed to encourage, to help develop medical centers in Greenville, Columbia, Florence, Orangeburg, particularly so that we would have a place for students to do their practice residency training and then keep them in South Carolina. We were getting the cart before the horse when we were talking about another medical school back in the 1960s.

CBG: If I were to pull the Moody Report off the shelf today, which section would you suggest I read first?

REM: Oh, let's see. I think you'd have to read the--you really would have to read the beginning of the report.

CBG: The methods, the general introduction.

REM: That's right. Just read that general introduction to it to get a feel for it and the approach and sort of the questions it raised that triggered everybody's thoughts, and then as it got into the various segments of education, transportation, health care, and all of that. I think you'd have to read that introduction.

CBG: Would you recommend the state government do something like this maybe once every ten or fifteen years?

REM: Yes, I've recommended that and sent a copy over to Governor [Richard W.] Riley. I remember when they had the little dedication out on the Capitol Complex that I debated for a long time whether to say something or just say thank you. I chose that as an opportunity to say that I thought maybe the state was coming to a point in time when it needed another hard look at itself like the Moody Report to find out where we are, how far we've come, what we've really accomplished, and where we need to go. The reason for it was that, with all we've done, with the new Education Minimum Finance Act and all of that, we seem not to be closing the gap; we seem not to be catching up. Not that dollars and salaries are the real test, but we'd come close to the Southeastern average in teacher salaries, our per capita income was moving pretty rapidly, much faster than the nation and much faster than the region during the sixties and seventies, whereas today, relatively, we're falling behind. Our per capita income has dropped from fourth or fifth down to next to last. Our comparison educationally is not encouraging to me, not as encouraging as I would like to see it, and I just have a feeling that we ought to take another look because I don't think South Carolina can afford to sit around and just wrestle, like we were doing, with its problems and talk about them and say, "But we can't afford to do anything."

CBG: In a real sense the national economy has changed in the fifteen years since that. We've perhaps gone full circle back to being a medical student export state again if . . .

REM: I think so.

CBG: . . . the current enrollment pattern . . .

REM: That's what I find, yes.

CBG: . . . holds. We make colleges out of TEC centers. So it may be an interesting period in which to pursue something like that, which would no doubt have political consequences. This raises the question,

what were some of the political consequences of all this? Did this change get you in some political hot water? [chuckles]

REM: Well, it did. You know, some of it was personality problems. We sort of had this study made with some funds that we were able to get together, and we kept it fairly close to the vest because we felt like that was the only way Moody's and those would get into it. They didn't want a lot of political involvement and political interference. They were going to do a study, and they were going to do a report, and then they were going to explain that report to us and tell us how they felt about it. Then, as far as they were concerned, they were through with it, other than they did agree that they would come down and defend the report if we called them to do it. So it really, I think it got a few people ruffled and feathers ruffled because they didn't feel like they had had enough input into it and all of that, but by and large, it called for a pretty massive program on all fronts.

It was, I think, Warren Rovetch who used a phrase that got quoted out of context and all--quantum leap--but we really needed a quantum leap forward to get us on the road. We had a lot of problems with them. When we got the report in, my decision was all right, let's release it and let everybody smoke it over and let everybody criticize and all of that; but we then got all the departments and agencies and went over it with them. We had two days or three days down at Santee-Cooper's place at Moncks Corner, and we went through it, we reviewed it, you know, with all of them and let all of them have all the criticisms they wanted there with us and give it to them to take and study and come back. We'd brought the legislative leaders in and reviewed it with them, and I think where we began to run into the problem was when we determined that we were going forward and then we decided to put the tax package together to support it.

We ran into some difficulties with some of the business community, I remember John Cauthen of the Textile Manufacturers Association determined that he didn't like it and would oppose some parts of it. Thus, Mr. [Solomon] Blatt, the speaker, took off after this infamous Moody Report and all of that sort of stuff. By and large, though, I think it was extremely well-received. It was extremely well-received in the legislature, and once we got over the hurdle of "It isn't ours, and we didn't have enough input," with the state agencies and departments, they began to respond favorably, and by reason of the fact that using the Budget and Control Board then as the vehicle for implementation, it gave us certain leverage on them because, you know, we weren't going to go get the money and we weren't going to put it in the budget unless it went in as a part of this overall package. So we were fortunate to sort of implement the program basically with that rather major tax program in, what was it, 1968 and get it through the General Assembly with, I thought, a minimum of debate and opposition.

CBG: Not so much a conceptual disagreement as it was perhaps just the newness and freshness.

REM: There was freshness in the approach.

CBG: But on the other hand, as you suggest, to involve a lot of people in doing the studies would really have diluted it. You really had to have the insulation of the expert, I guess.

REM: That's right. And that's the only way they would do it.

END OF SIDE ONE; BEGIN SIDE TWO

CBG: This is Tape 13, Side 2, an interview with Governor Robert E. McNair as part of the McNair Oral History Project of the South Carolina Department of Archives and History. Today's date is November 30, 1982. Governor, generally speaking now, how do you assess your role as an executive in managing the economic policy of the state? Do you feel that you were able to provide leadership in budget preparation based on such things as the Moody Report and good communications with the legislature?

REM: I think we did, and I think perhaps then with all of that, we had more budget planning, more program planning, a more comprehensive approach to the state's needs than we had been experiencing. That's no reflection on anybody in the past or on how we had done things. Before, you know, we'd say, "We got to do something about public education," and that meant teacher salaries. This time we talked about the underlying problems, the festering problems of dropouts in schools, repeaters, first grade, second grade repeaters, the illiterate community, the health care delivery system, and all of those sort of things rather than, "We need to build twenty new regional health centers." They came as a part of the health care delivery system not just as somebody's idea that we need to go do that. I felt that we really during that period of time got a good grip. The Budget and Control Board functioned as it was intended, I think, and really functioned well. It took on some new responsibilities. It, you know, got into like the personnel system and established and created the personnel system and really took the bull by the horns and went with that, which to me had always been an administrative problem, not a legislative problem. And we sort of just took, you know, a hold of some things that we felt were administrative and executive problems and began to move forward with them.

CBG: Do you think that raising the level of the question and at the same time establishing this type of credibility was the only way that you could have sold this increase in taxes?

REM: Yes. It was not a tax increase program and never was. You know, the thing still surprises me at how smoothly it went because it was the programs and not the tax increase that was the focus.

CBG: Tax was the means and not the ends.

REM: We put it all together, and then we had to fund it. So, you know, instead of going to the legislature for a tax increase to accomplish these things, we went to the legislature with a program for South Carolina that was essential to the future of the state and then we said, "Now here is the way we recommend you pay for it." There was the package. So it became easier to support the full package than it had been before. It became more difficult to be against it because, if you were opposed to it, you weren't supporting the preschool education; you weren't supporting the upgrading of vocational adjunct education, you know, and all of those kinds of things that we had built into it.

CBG: Did you get any detractors perhaps among interest groups who felt as if their particular interest was being overlooked?

REM: Well, yes, you always have some. Basically, though, we were pretty well setting the stage for a broad improvement program in South Carolina. The biggest thing we ran into was in the health care and public welfare areas where there had been just a total fragmentation. This program called for much more coordination of effort, much more pooling of resources and efforts, and that created more problems because that area wasn't concerned. It was a problem, still is. It was one of those most difficult to deal with. My preference at that time was to consolidate health and welfare. I thought they fell together enough that we ought to pull them together. Then we began to look at Voc Rehabilitation. It was a tremendous program in this state, doing a fine job, and we wanted to accelerate that program, but we found that they and the Blind Commission weren't cooperating as much as they should. They were all were in rehabilitation programs, but things needed to be coordinated more and we ran into all kinds of problems in those areas because nobody wanted to give up anything.

CBG: Was this fragmentation established in the pattern of federal funding that went on before?

REM: It was that plus, you know, every time we had a new program we set up a new agency and a board, and we put a director in there, and we just let them go run it. They were autonomous, and then as federal monies began to come, they'd come directly to them. If they got money or happened to be the agency that got the money, they wouldn't share it with anybody else that was doing some of the same things. I remember

running into a terrible problem, for instance, between the welfare department and the Blind Commission because they both had patients to be taken to Charleston to the Medical University. All of them had had eye treatment problems, and all were going down to the eye clinic that we'd established and the social workers for the Department of Public Welfare wouldn't take the patients for Voc Rehab. All of them worked for South Carolina, all serving the same, but neither one would help the other. I had a terrible time and got awfully upset and angry about a little thing like that. I couldn't understand why a social worker paid by South Carolina wouldn't take a patient that was under Voc Rehab just like they would somebody under Welfare. I mean, after all, to me, it was the state, the state was paying for it, it was a state program, but you just couldn't get them to do things like that.

We had programs of educating the students in psychology and psychiatry, and we had the program at Charleston, the Medical University, and we had a program up here at the Byrnes Center, a mental health institution, and the students from Charleston Medical University wouldn't let them come here. Most of ours were from the University of Georgia and the reason was that Dr. [William S.] Hall and Dr. Kleckley at the Medical University had divergent views on how the program ought to be run. They were Dr. Kleckley's students from the medical university even when they were up here training under Dr. Hall, and Dr. Hall's attitude was, "No, they're my students when they report to me, and they're going to conform to whatever my training program is." It took us six months of constant negotiations in the governor's office ending up with a written document, a memorandum of understanding, to get the institution here to take the students from Charleston or Charleston to let them come. That's the kind of thing we ran into as we got deep into this whole effort of trying to assault the educational needs or the health care needs and produce professionals on the other end coming out.

CBG: Did your interagency councils help in this effort?

REM: Yes, yes they did. That was the purpose of them, and that's where you found a lot of this, and that's where they would be helpful. As I think I mentioned, we pulled in the chairmen of the boards and commissions. It was awfully difficult for a chairman or lay businessmen sitting out there to tolerate, to have too much patience and tolerance with the director of a program who, you know, would act like that. There just wasn't much room for it on his part. I could always get a response from that board if I had to.

CBG: To what extent did you use some other powers of the Budget and Control Board to bring about administrative change, for example, in the Audit Division. Did this give you a new kind of information by which to assess agency performance?

REM: Well, it was the beginning of one. Pat Smith had constantly talked about the need for more information. You know, we really spent all of our time budgeting. We spent very little time in program planning. We relied totally on the agencies for that, and we spent no time on some kind of evaluation after, you know, what they were doing, how well they were performing, was this program really doing what it was supposed to do. We didn't have a system, and we needed to also to take the Audit Division and involve it more in that role, just to go in and see if people were doing what they were supposed to be doing and how well they were performing and all. We got into planning by creating the Planning Division, of course, that was in the Governor's Office. It served as an arm of the board to coordinate, take the plans from all the various interrelated groups and put them together so that we could have a comprehensive plan rather than a bunch of fragmented plans that we'd been working on before. We were getting into and getting a lot of ideas, and I think the Budget and Control Board has continued to expand its ability to perform a lot of these functions.

CBG: So you can get pre-audit from the budgeting sense and post-audit. . .

REM: Post-audit in . . .

CBG: . . . in the execution phase.

REM: All in there from them, and I think they're doing a better job. My feeling always was that what we call audit, the auditors coming in and auditing your books, ought to be done by the Comptroller General's Office anyway. The comptroller is the comptroller.

CBG: Yes.

REM: And the Budget and Control Board's audit people ought to be auditing to determine whether you're doing the services, you know, evaluations of performance and all of that sort of stuff, more than auditing to catch you on whether you misspent this dollar or that dollar. That that really ought to come under the Comptroller General's Office, and he ought to have an internal audit division that's as good as any division in any big corporation or better because we're dealing with, you know, a multibillion dollar business now.

CBG: Yes.

REM: You should even have the Governor's Office audited. I didn't realize until I read in the paper that the Governor's Office was never audited. I always knew we had had Katherine Dunlap . . .

CBG: Yes.

REM: . . . who had been there since Mr. [James F.] Byrnes. She was tougher than most financial officers I've had experience with to get a dollar out of. She rode herd on everybody. I got more complaints on her than anybody else on the staff. She really rode herd on them.

CBG: [chuckles] She was an institution, wasn't she.

REM: She watched every penny, not every dollar.

CBG: But at least during this period, though, there was some growth both in extent and intent of the audit function.

REM: Yes.

CBG: What about the impact of this renewed or aggressive capital development program and our bond rating? Were there changes in that in terms of legislation or practice?

REM: Well, there was because, there again, with Moody being involved, we did the same thing. They looked at South Carolina's overall financial situation and looked at debt service as a ratio to our budget and found that it had diminished substantially and that it was extremely low. We really hadn't used our bonding authority or ability to any great extent to do things. We had tried to pay for stuff more out of our normal revenues, and they recommended and we set up then the first capital improvements program totally separate from the budget. That is still the vehicle that is used over there. We set it up so that you don't have to go back and reenact the legislation every year. You simply go in and approve, you know, the facilities and all of that as a part of it. The legislation and the vehicle is there for a capital improvement bonding program. We felt that was a good, new approach so that those things were segregated and separated from the normal budget. We got it out of there.

It did a lot for us politically. It eliminated, you know, the old system of, "I'll get mine. You'll get yours. I'll help you with this, and you help me with that." We sort of put it out there where it was focused and everything was well documented, well justified and supported. We did it in a way that, you know, as

Moody says, "You're not jeopardizing your credit rating because you can support a certain percent of your budget for capital improvements and debt service." When you get beyond, you get in trouble. We've always maintained that at a fairly constant level. They've gone a little wild on authorizations. That's a new thing, that's something that is new to me. They authorize a whole lot of things over there, but then they'll all just stand there, and none of them are really ever approved for a long time. That's to me a little bit dangerous because you get a whole lot of things out there authorized, and ten years from now you may get around to building the facility. Well, my attitude is if you're going to authorize something you ought to do it when you need it and only when you need it and go and get on with it. But still the system works.

CBG: Did this new capital plan require the establishment of a reserve fund, or was that more for operating measures?

REM: That was for operating purposes. When we started these economic studies and economic forecasting, we took the position that really it's not fair to underspend and curtail your activities like we had normally, to be conservative. Let's create a reserve fund to take care of any emergency dip in the economy that might come in the middle of the year that you can't take care of otherwise. Let's budget our revenues and resources, and let's do it in a more orderly way and a more systematic way. In doing that, we needed to establish a reserve fund. So at that point, we established, I think, a five percent reserve fund. \$25 million was my number. I remember we established a \$25 million reserve fund just for our budgetary process, and unfortunately we hit a bad time after that, and in order to continue to increase teacher's salaries, we dipped into the reserve fund for some things. I think in time it pretty well eroded away until they came along then and followed it with the statutory requirement. We were pioneering, and there was no way we were going to get permanent statutory authorization for that kind of reserve. We built it into the appropriations and had it in there.

CBG: Does the legislature see that as false taxation, or do you think they did so then, as an overtaxing to build reserve funds?

REM: Yes, and that's what they talked about, and that's why my position was, "Let's establish it. Let's set it aside, and let's maintain it at a reasonable level, which at my point and time was the \$25 million." Thus we're not carving out \$25 million every year, which I agree with them was not appropriate. Everybody needs a reserve for emergencies or, we felt, a reserve for problems that could come along that we didn't anticipate.

CBG: Was the reserve fund in place when the downturn came in 1970?

REM: We had pretty well used it up because the . . .

CBG: Events leading up to it.

REM: . . . events leading up to it. We'd pretty well used it up, and that was the reason that we had to move to the budget reductions during the middle of that year.

CBG: How did you pull that off, having sold some of these new programs and all?

REM: That was a difficult one because that was, you know, one of those predicted dips in the economy that actually never materialized to the full extent, my recollection was. We ended up in good shape at the end of the year where we really were deeply concerned. What bothered me was having come through that six-year period and taking the position I'd taken all the way and leaving an incoming governor with a deficit. I didn't care if it was one million or six million. I can recall previous governors talking about, "My big problem is I inherited a five or six million dollar deficit from the previous administration. I had to make that up first, so I've been behind the eight ball." We determined that we had sold this program on a sound fiscal policy, you know, to maintain our credit rating. We were tough on holding everybody in line. It would be inconsistent to sort of ignore what the economic advisers told me was going to be a downturn in the economy and going to leave us with a potential substantial deficit at the end of the year. I felt I owed it to the financial community as well as, you know, to the state to reaffirm, reestablish, and forever fix in their mind that South Carolina is a fiscally sound state and that we were going to take whatever action needed to be taken to maintain that.

CBG: Did the agency heads response positively?

REM: That was an unusually good exercise also. I liked to think it was because of all the things that had happened in the working relationship we'd had. They responded extremely well, almost without exception. They stepped up to the table and submitted plans to us for this reduction without any action on our part. We excluded public education, you recall, because we didn't feel with all we were trying to do there that we could afford to ask them to take this kind of cut at that time. They all stepped up and did a remarkably good job in coming forward with it.

CBG: With all of that working apparatus in shape, you really weren't faced with having to make a demand for an across-the-board cut in every agency, were you?

REM: We sort of fit the cut where it did the least harm. We had unusual situations where they just couldn't absorb, and in those cases we found other ways to handle and to take care of the need for those people. But it really was a good exercise for the agencies. I think it probably did them as much good as it did the state to go through that exercise.

CBG: As you look back over general economic policy, did things turn out over the course of your administration the way you had generally hoped?

REM: I think so. I've been asked that question quite often, and I have to say yes. I reckon that's one of the reasons I left with a good feeling. I have said to people who have asked, "Why don't you run again?" I really don't know what I'd do for an encore. I feel real good about those six years. I feel good about what we were able to accomplish and you know sort of the foundation we laid in a lot of areas. I'm afraid I'd go back, you know, and not be able to really get back into the swing of things again. I really think things worked about as good as we could have expected.

CBG: It seems almost like you had a good crystal ball to anticipate the increase in interest rates and to be able to calculate this impact on state government and come up with a plan to do the things that needed to be done without at the same time exposing the state to financial dangers.

REM: Well, a lot of study went into it, and we got a lot of good advice and counseling from a lot of professionals inside and outside of state government. And I think South Carolina had built such a reputation that, you know, people welcomed the opportunity to help us. We were lucky, too, and things seemed to work out for us. I've always said as good as the economic forecasters are, it takes a little luck also, as we see today. But, yes, I think things worked out really well.

CBG: It's unique for a younger person to have the cooperation of old timers like Mr. [Jeff] Bates and Mr. [E.C.] Rhodes and a lot of state agency heads as well, isn't it?

REM: Well, you have to work at that.

CBG: [chuckles]

REM: You really have to work hard at that. And you know, over a period of time you cultivate friendships, and my attitude was, you know, “We're going to do these things, we need to do them. I'm in here, but you know more about all this than I do. If you don't, we're in trouble.”

CBG: [chuckles]

REM: I really brought them in and listened to them, and I believe they did a lot more because of that. I think they all did more than they ever thought they'd do themselves under those circumstances to respond and to be helpful. The Department of Education had always been, you know, a real problem for everybody. They were constantly fighting with the Governor's Office. They were fighting with everybody. There couldn't have been a closer relationship than we had with them and a working relationship with Cyril Busbee. When he came along after Dr. [Jesse] Anderson, we simply developed a pattern with them of, “Look, we've got so much money, we've got so much for education. Now, tell us where we can best spend this money. You go get the leading group of school administrators. You all sit down, then come back and tell us where we can best use it.” Generally we followed that.

So in the final analysis, they had to help me sell and defend that program because I could always stand up and say that this is what they say and this is their program now. Sure, they'd like to have had another ten million dollars, but it wasn't available. We would determine that we could put so much money in these broad categories and then require them to help us determine how best we could spend that money.

END OF TAPE