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Jim -

I think we should
keep this here -- unless
DR would want it.

I checked his girls
it is not his memo --
they do not know who
wrote it.



Trudy

Rumfeld

September 2, 1975

MEMORANDUM TO: THE FILES

The attached review of Reagan's Governorship and an overall assessment of his views was sent by an individual who has been very active in political circles. It may be useful background information.

grf

August 13, 1975

Re: Reagan

Attached is California "Welfare" and tax information.

A specific impact sheet must be done on "Welfare" showing Reagan's liberality - i.e.

- Signed a liberal abortion bill;
- Approved \$30 Million (I think) Family Planning Expenditure, etc.

Basically, and more broadly, California has "plateaued" economically and sociologically and thus there simply has been a lessening of the burden and thus a lowering of the case load.

On taxes, such a sheet is attached and you will note:

- Adoption of withholding, though campaigned against it;
- Net (after property tax relief) of about \$1 Billion per year in tax-rate increases;
- Most progressive state income tax in nation - added the 8-11% brackets;
- Higher capital gains taxes;
- Corporation tax from 5.5 to 9% (fairly stated, must recognize this ~~was~~ to offset business inventory relief);
- Lowered depletion allowance, as of then, lower than Federal level;
- Inheritance tax increase.

Parenthetically, I handled all of these tax bills.

And in the field of Open Housing (a "major" issue of the 60's), though he campaigned for the repeal in California in '66, he joined me to block repeal in '67 after the repealer had passed the Senate overwhelmingly.

I conclude from all of this that, compared to other Governors, Reagan comes out a "moderate liberal" - I'd say #7 on a scale of 1 to 10 - a fairly liberal governor cloaked in conservative cloth.

Another conclusion is that Reagan is mostly a compromiser. To his credit, he learned the art but, in assessing his present rhetoric, the true conservative must appraise that rhetoric in light of his history of compromise in California.



Record of Governor Ronald Reagan
Regarding State Taxes

I. THREE MAJOR TAX INCREASES IN EIGHT YEARS

1967 -- SB 556 ✓ \$943 million
(
| (\$280 million of which paid
| off the deficit from prior year
| and \$190 of the \$280 used for
| property tax relief in subsequent
| years).

1971 -- AB 1x ✓ \$488 million (1st full year).
| (\$150 million of this was for
| property tax relief)

1972 -- SB 90 \$682 million

(\$650 million for property tax
relief programs).

Note: While the tax increases were permanent, there were two temporary income tax reductions.
1) 1969 - 10% with Weinberger Cap.
2) 1973 - 35% on sliding scale.

II. Total impact of changes made tax structure far more progressive and effected a redistribution of income in California. ✓

III. INCOME TAX CHANGES

A. Increased Rates

(Formerly 1% to 7%)
1967 1% to 10%
✓ 1971 1% to 11%

B. Reduced size of brackets

<u>Pre-Reagan</u>		<u>Now</u>
Width of 1st bracket	\$2,500	\$2,000
Width of other brackets	\$2,500	\$1,500

C. Switched from exemptions to credits.

	<u>Pre-Reagan</u> (Exemption)	<u>Now</u> (Credit)
Married Person	\$ 1,500	\$ 25
Single Person	3,000	50
Dependents	600	8

D. Exempted persons with low incomes from income taxation
 under \$4,000 adjusted gross income - single
 under \$8,000 adjusted gross income - married

✓ E. Instituted withholding method of collection of personal income tax.

F. Increased tax on capital gains

<u>Length of holding period</u>	<u>% of gain subject to tax</u>	
	<u>Pre-Reagan</u>	<u>Now</u>
0 - 6 months	100%	100% ✓
6 - 12 months	50	100
1 - 5 years	50	65
Over 5 years	50	50

G. Reduced oil depletion allowance from 27½% to 22%.
= Plus "Minimum" Tax (Preference Income Tax) on the remainder.

✓ H. Repealed \$1,000 exclusion for military income
 (Subsequently reinstated for persons with \$15,000 AGI or less)

✓ I. Imposed a tax on "preference income" in excess of \$30,000 at 2½%. (Note: Did not incorporate federal deduction for taxes paid).

J. Instituted a refundable income tax credit for renters ranging from \$25 - \$45 (even if taxpayer owed no income tax, a taxpayer is eligible to receive a state refund.)

IV. BANK AND CORPORATION TAX CHANGES

A. Rate increased from 5.5% to 9.0%.
 (Note: Funds used to fund reimbursements for inventory reli

- B. Reduced oil depletion allowance from 27½% to 22%.
- C. Accelerated pre-payments of Bank and Corporation Tax.
- D. Increased minimum tax for companies with no profit from \$100 to \$200.
- E. Imposed a tax on "preference income" over \$30,000 at 2½% rate (Note: Did not incorporate federal deduction for other taxes paid). (Some oil companies say they pay more \$ under California preference income tax than under federal.)

V. INHERITANCE TAX CHANGES

- A. Increased inheritance tax rates as follows:

<u>Class</u>	<u>Rates Pre-Reagan</u>	<u>Rates Now</u>
A (Spouse, kids, parents)	2 - 10%	3 - 14%
B (Brother, sister, nephew, niece)	6 - 18	6 - 20
C (Aunt, uncle, cousin)	7 - 18	10 - 24
D (Stranger)	10 - 24	10 - 24

- B. Accelerated collection of inheritance tax from 24 months to 9 months
- C. Eliminated 5% discount allowed if tax is paid within 6 months of the date of death.

VI. SALES TAX CHANGES

- Increased state rate 3% to 4.75%
- Imposed tax on sales of gasoline.
- Made tax more progressive by expanding food exemption to include candy and fruit juices.

VII. OTHER TAX INCREASES

- A. Increased cigarette tax from 3¢ to 10¢ per pack
- B. Increased tax on distilled spirits 50¢ per gallon

VIII. OTHER TAX PROPOSALS (unsuccessful)

A. 1969

1. Impose 5% sales tax on sales of containers.
(opposed by manufacturers)
2. Impose 5% sales tax on repair services such as shoe shines, car washes, etc.
(opposed by repair businesses)
3. Impose 5% sales tax on magazine sales.
4. Impose statewide property tax on business property only at \$3.50 (split roll) for school support.
5. Impose additional 1% gross income tax.

B. 1967

1. Impose 5% sales tax on utility bills for other than residential customers.
2. Impose 5% sales tax on repair services.
3. Impose tax on cigars and tobacco at 25% of wholesale price.
4. Increase insurance tax from 2.35% of gross premiums to 2.6%.

Is Reagan taking too much credit for 'slaying' the welfare monster?

By JULIE THOMPSON

Governor Ronald Reagan has been traveling about the United States pointing to his administration's modifications of California's welfare program as an example of how the "welfare monster" can be tamed if not slain. In October 1971, after enactment of the Welfare Reform Act, caseloads and expenditures did drop, and only now are they beginning to return to pre-reform levels. The question, however, is what caused the reductions. And the answer now appears to be that other factors were involved — a combination of factors that might not be duplicated elsewhere, even in California.

The Welfare Reform Act was a compromise between proposals by the Republican administration and the Democratic-controlled Legislature. It concentrated on the large group of child-related recipients — Aid to Families With Dependent Children (AFDC), which is broken down into two categories: Unemployed (AFDC-U) and family groups (AFDC-FG). The federal government has since taken over administration of the adult welfare categories — aid to the aged, the blind and the disabled.

The Reagan administration has made the point that some administrative, non-legislative reforms were started in March 1971 — before adoption of the welfare legislation. There is some validity to this contention, especially in tightening application-eligibility procedures. The administration indicated that its intent was to cut off grants to those at the top of the income ladder and disperse the savings among those on the bottom rungs — whom Reagan calls "the truly needy". Able-bodied recipients — all adult males, plus mothers with children older than 5 — were told that they must accept work in employment programs or lose their grants.

Provisions expressing this intent were enacted in the bill. A flat-grant schedule (eliminating a system employing a "maximum participating base", a headache to administrators since its inception in the 1930s) raised benefits to the "truly needy" and reduced grants to those with other income. The Legislature assured a general rise in benefits by rejecting an "equitable apportionment" plan in the administration's original bill and adding an annual cost-of-living increase. (Under equitable apportionment, a total fixed appropriation would be passed for welfare, and grants would be adjusted down-

ward if the caseload increased.) Work-related expenses were limited to a maximum of \$50 a month after the administration provided examples of working recipients who were getting \$1,000 a month by adding expenses to their basic grants. Cooperation between the administration and Democrats in the Legislature led to a generally accepted change in the area of grant schedules, to the credit of the Republicans who initiated the move.

Effect on caseload

The decline in AFDC caseload after the act took effect can be attributed, in part, to the revised grant schedule [Table 1]. Recipients at the top were cut off, undoubtedly including some perpetrators of fraud. The number of new welfare applications also fell [Table 2] from the previous year. A prime cause may have been the scare effect of the Governor's campaign against welfare in 1971, but at the same time federal laws were enacted extending unemployment benefits an additional 13 weeks to a possible total of 39 weeks; this allowed more potential AFDC-U recipients a longer time to find a job and stay off the welfare rolls.

The drop in the number of AFDC-U recipients corresponds directly with the state's unemployment rate [Table 3]. In August 1971, the Nixon administration ordered a temporary wage-price freeze. Employment improved, and in California the unemployment rate decreased from a high of 8.8 percent in 1971 to 7.0 percent in 1973. This was just the time that the Reagan administration was taking credit for reducing the AFDC caseload. AFDC-U declined steadily through June 1973 as thousands of unemployed parents found jobs and took their families off welfare. Although unemployment averaged 8.8 percent in 1971, monthly figures show higher percentages in the spring and declining percentages the rest of the year. AFDC-U figures follow a similar pattern. Both the unemployment and caseload decline began before enactment of the reform act, and the trend continued steadily.

Migration decreases

Another factor that helped keep the welfare caseload from rising was a low level of migration into the state — at least by comparison with the 1960s [Table 4]. The word started to spread in the late 1960s that California

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State budget documents show these statistics for payments to children:

	Number of recipients			Total cost (in millions)		
	1971-72 (actual)	1972-73 (actual)	1973-74 (estimated)	1971-72 (actual)	1972-73 (actual)	1973-74 (estimated)
Family groups	1,332,155	1,287,294	1,346,575	\$974	\$953	\$1,042
Unemployed	216,852	185,918	180,755	159	127	129
Institutions	34,488	31,192	30,800	69	70	74
TOTALS	1,583,505	1,504,404	1,558,130	\$1,202	\$1,150	\$1,245

was no longer the promised land of employment, and the migration figures of the 1970s reflect that realization. In any case, lower migration had the double effect of allowing California to hire from its own unemployment pool while keeping migrants off the unemployment and welfare rolls.

At about the time the Reagan campaign for enactment of the reform act was getting under way, the federal government was trying to stimulate the California economy. The state received new defense contracts, and Lockheed Aircraft Corporation was bailed out of probable bankruptcy by a \$250 million loan guaranteed by the federal government. (In the Los Angeles-Long Beach area, unemployment dropped from 7.8 percent in 1972 to 6.5 percent the next year.) Thus, the change in the overall tone of the California economy played a significant part in reducing the AFDC-U caseload. And this reduction would have occurred whether or not the Welfare Reform Act had been passed.

Job-placement programs

But what of the programs relating to job placements for AFDC recipients?

The Community Work Experience Program (CWEP) was expected to help implement the Reagan plan by requiring all able-bodied adults to accept at least 20 hours

of work a week in order to receive aid. The salary, set at the minimum-wage level, is deducted from the monthly grant. The state Employment Development Department (EDD), which administers the program, offered these statistics on job placements of welfare recipients in regular jobs:

1973-74	75,705
1972-73	57,178
1971-72	25,448
1970-71	15,667
TOTAL	173,998

The department claims that there has been an increase in the number of recipients employed in the 35 counties participating in the program — and a much poorer employment record among welfare families in the remaining 13 counties. The difference is attributed to the effectiveness of the program.

An entirely different picture emerges, however, in a detailed review made by state Auditor General Harvey Rose for the first four months of 1974. The findings:

- Of a planned 58,776 participants for the first full year of the program, no more than 1,134 people were placed, and only 1,010 had participated in the first nine months of the second year.
- Although the Legislature intended that the program operate as a demonstration project, no control-group was drawn from the same population, no reporting system was used to show how many individuals entered and left the program, and no records were kept of how much state and local staff time was devoted to run the program.
- Not taking into account an estimated minimum of 56 percent overstatement of the number of individuals placed (because of inaccurate reporting systems), no more than six-tenths of one percent of California's welfare recipients were ever placed under the program — and those placed had an average tenure of 5.6 months.

Rose's evaluation also states that "considerable additional evidence suggests the insignificant impact of the program." A legislative staff survey found that only 262 CWEP participants later found jobs, most of them farm workers. As a result of these reports, the Legislature this year enacted a bill — AB 3508 (Foran) — abolishing the program; Reagan, however, vetoed the bill, saying the results so far "indicate that the tests should continue."

Public jobs

Another employment program operating simultaneously, the Career Opportunity Development or COD, has met with relatively great success. COD places recipients

TABLE 2: UNEMPLOYMENT AND WELFARE

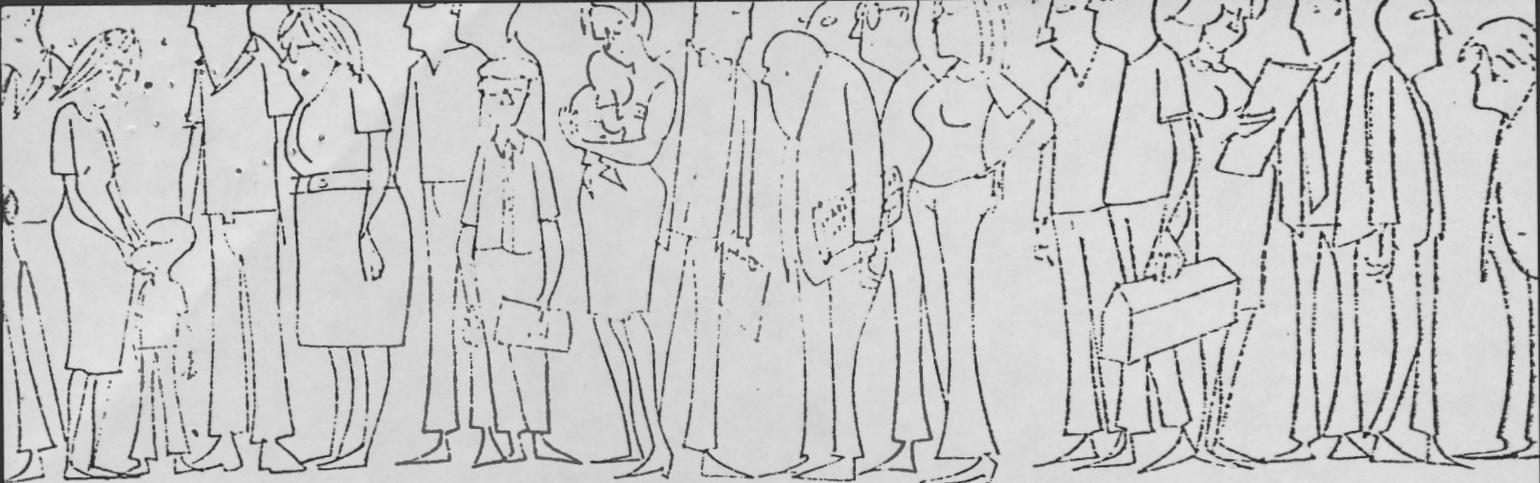
	California unemployment rate	Total AFDC applications	New AFDC-U applications
1967	5.7	144,648	33,136
1968	5.4	162,475	34,408
1969	5.2	211,313	46,851
1970	7.2	319,187	97,392
1971	8.8	285,537	87,737
1972	7.6	252,767	66,361
1973	7.0	248,973	56,341

Sources: EDD, Senate Office of Research, HRD

TABLE 3: UNEMPLOYMENT AND WELFARE IN 1971

Month	Unemployment rate	AFDC-U caseload
January	9.0	66,000
February	8.6	67,000
March	9.0	72,000
April	9.2	68,000
May	9.3	65,000
June	9.1	62,000
July	8.6	58,000
August	8.9	56,000
September	8.7	54,000
October	8.5	52,000
November	8.0	50,000
December	8.1	51,000

Sources: EDD, Senate Office of Research, HRD



in public jobs, by-passing some of the regular placement requirements such as education and experience. It also has the built-in advantage of providing the opportunity for advancement within civil service, allowing recipients to apply in the normal way for higher positions. The average trainee salary is \$473 a month, which is raised to \$554 when the job becomes permanent.

These are the placement figures for COD as of June 30, 1974:

	Jobs Under Contract	Persons Hired	Jobs Now Filled	Permanent Jobs Filled
State	3,135	2,532	665	1,074
Local	1,755	956	633	201
TOTAL	4,950	3,483	1,324	1,275

Fully two-thirds of the trainees have advanced into permanent jobs. For the current fiscal year, 3,852 jobs were developed and 1,470 recipients placed. But the State Personnel Board, which administers the program, estimates that at least twice as many jobs could be contracted annually if more funds were available. The program was funded during its first two years by \$5.5 million in federal grants for the Work Incentive (WIN) program, matched equally by state funds. When the federal government then reduced its appropriation to \$5 million instead of increasing it to an anticipated \$8.8 million, the Governor vetoed a legislative augmentation to maintain funding at \$11 million. (In "Catch 22" fashion, the Department of Finance refused to recommend funding unfilled contracts, while COD is unable to fill unfunded contracts.) The final budget was approved at \$7 million, leaving 2,412 positions under contract unfilled. According to a legislative staff report, the administration's COD funding policy could, over five years, cost the state \$20 million in welfare savings.

Overstated savings

Administration claims of a \$1 billion savings in welfare as a result of the Welfare Reform Act are greatly overstated. These calculations were based on extrapolations from the substantial monthly increases in caseload during the high unemployment period of early 1971, and disregarded the unemployment cycle and its relationship to welfare caseload. In March 1971, Reagan estimated that, without reform, California welfare rolls could expand from 2.4 million recipients to three million by July 1972.

But, from March through October, AFDC caseloads had actually dropped by 12,340 families without enactment of the reform act. Total caseload reduction has been about 48,000 between 1971-72 and 1973-74. Monetarily, the state now spends more on welfare than it ever did [Table 1].

The administration's emphasis on eliminating fraud was incorporated in many of the act's provisions.

Lawyers within the administration and the Legislature waged a battle of technical jargon before the final form of the bill was written. Eleven major provisions were tested in court actions, resulting in few being implemented. The latest tally shows that in 40 major lawsuits arising out of the act, recipients have won 32 and the state eight.

One that was implemented — the relatives' responsibility clause — was met with a storm of public criticism as middle-class families found themselves required to take over the financial burdens of poorer relatives. At the end of the 1973 legislative session, the Reagan administration found itself over a barrel in negotiating with then-Assemblyman John L. Burton over the level of welfare aid. One of the prices Reagan had to pay for a compromise was a return of the relatives' responsibility law to its pre-reform status. [CJ, January 1974.] Another anti-fraud program — using a computer to cross-check recipients' reported income and their employment records — has almost been abandoned; no figures are available on the program's effectiveness. Some other anti-fraud devices were invalidated by the federal Department of Health, Education and Welfare or are still being challenged in court. Others are playing only a miniscule role in reducing caseloads.

Whose program?

The Reagan administration welfare program, which has taken hold as a political "plus" nationally, is based on the assumption that welfare is not so much a program that poor people need for survival as one that is "used" by those not truly in need. The Reagan approach has such political appeal that it was adopted by Governor-elect Jerry Brown in this year's gubernatorial campaign. Because welfare costs constitute such a major portion of the state budget, it is popular to reduce aid expenditures and transfer the appropriations to such fields as environmental and consumer protection without raising

TABLE 4: MIGRATION TO CALIFORNIA

	Civilian Population	New Migration
1953	17,198,000	357,000
1954	17,714,000	315,000
1955	18,182,000	263,000
1956	18,493,000	180,000
1957	18,671,000	233,000
1958	19,147,000	128,000
1959	19,453,000	121,000
1970	19,690,000	15,000
1971	19,960,000	44,000
1972	20,218,000	55,000
1973	20,461,000	55,000

Source: Department of Finance

taxes. The working, taxpaying Californian struggling to raise children in these days of rampant inflation resents the food stamps, free medical care and other benefits provided to welfare recipients. Thus, there is great appeal to a program that is designed to reduce caseloads by forcing the poor to go to work.

But what is the other side of the coin? What is the makeup of the low-income family and its social and economic problems?

There is a significant trend toward one-parent families under AFDC, and more often than not that parent is a woman. On the average, a woman earns 60 percent as much as a man. The birth rate is down, decreasing from three children per welfare family a decade ago to 2.2 youngsters today. This is a major factor in the welfare mother's ability to obtain and keep work outside the home. There is a conflict between the benefits of providing child care at home and the status Americans confer on a family's breadwinner. The AFDC program, expressly for children, penalizes the parent as the recipient of the children's aid. The welfare child in California receives almost \$800 a year through the parent for sustenance, yet the same child receives about \$1,100 a year in education programs on entering school. In other words, the welfare mother is paid much less to raise her child than the schools are paid to educate the child about 25 hours a week. The welfare mother is given little opportunity for adequate employment, and she is the first fired when jobs become scarce. The Reagan administra-

tion was not sympathetic to this point of view. It even was slow in organizing the child-care-center programs included in the Welfare Reform Act, and the programs were transferred to the Department of Education for implementation.

The job cycle

But while the administration takes more credit for reforming welfare than perhaps it deserves, there is agreement even among the Governor's critics that the program did produce at least modest accomplishments. Declared the nonpartisan legislative analyst, A. Alan Post: "I think the Legislature took some of the rough edges off the Reagan proposal and made it a much better program. But the net effect was good, and it would not have happened if the Governor's real concern had not turned the program around."

Where does welfare go from here? In the 1960s, Americans became saturated with aid programs, with the Lyndon Johnson War on Poverty in full battle-dress and welfare-rights organizations starting to flex legal muscle. The reaction was the Reagan reform program. But through both these efforts, the basic problem was not eliminated: The poor still need more help, and it must be provided in a way that will not offend the middle-class taxpayer. Somehow, the poor must be brought into the employment mainstream. For it is the job cycle perhaps more than any other factor that affects the rise and fall of the welfare rolls. ▲

It was said . . .

I think a lot of people have the idea that politics is crooked because politicians go around calling each other crooks.

... by Assemblywoman March K. Fong, secretary of state-elect.

We lost because the Republican Party in California failed to motivate and mobilize its own people.

... by defeated Lieutenant Governor John Harmer, announcing his candidacy for vice chairman of the party's state central committee.

He expressed himself to me as a man who believes in holding the line.

... by Governor Reagan in answering a student's question on the spending proclivities of Governor-elect Edmund G. Brown Jr.

If the problems are not fixed now, then we'll have no alternative to cutting our services or doing away with a public school.

... by UC Regent Robert O. Reynolds, commenting on the "horrendous costs" of running the University's five medical schools.

Most of the more powerful and significant boards and commissions have never had women represented.

... by Pamela Faust, executive director of the California Commission on the Status of Women, advising women to write Governor-elect Edmund G. Brown Jr. to recommend women for the 2,000 appointments he must fill.

With the present economic concerns, growing inflation and very serious unemployment problems, every indication I get is that the public is still maintaining a very high interest in environmental concerns.

... by Russell E. Train, administrator of the federal Environmental Protection Agency, speaking to the Comstock Club in Sacramento.

This was a vote of anger and disappointment, and in their blanket condemnation of so many Republican officeholders the people have punished the innocent along with the guilty and received many dedicated public servants.

... by Mayor Pete Wilson of San Diego, commenting on the need for Republicans to press for political reform.