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PROPOSAL BY REAGAN OPENS AN OLD WOUND

By WALLACE TURNER, Special to the New York Times

SAN FRANCISCO, March 14— To Ralph Abascal, general counsel of California Rural Legal Assistance, the announcement from Washington awakened memories of a bitter fight, once won, that might now be lost because his old opponent, Ronald Reagan, had become President.

"I had felt that legal services had become too institutionalized for Reagan to try to get total elimination," he said. "I expected cuts, maybe rules against taking on class actions, things like that."

His comments were on the Reagan Administration's proposal that the Legal Services Corporation, which finances poverty law centers, such as California Rural Legal Services, lose its \$321 million appropriation and go out of business.

The California program is regarded as one of the nation's most effective legal agencies. It has been examined and exonerated of numerous charges by critics whose disagreements with it turned out to be more philosophical than anything else. Praise From Bar Official

"California Rural Legal Services has been one of the leading legal service agencies in this state," Joanne M. Garvey, president of the San Francisco Bar Association, said in a comment that was typical of professional attitudes toward the agency. "It has served a large clientele and has served it well - perhaps it has served it too well."

The agency's clients must have an annual income that is no more than 125 percent above the Federal poverty level, which is \$4,700 for a single person. Last year it handled 25,000 cases, all of them civil matters.

If successful, President Reagan would win a fight that he lost as Governor 10 years ago. For four years he had watched lawyers for the legal agency block his cuts in welfare and medical aid to the poor, and force 21 counties to broaden food stamp and school lunch programs.

Then in December 1970, Governor Reagan vetoed a \$1.8 million Federal grant to the California agency from the Federal Office of Economic Opportunity, which at that time disbursed poverty law center grants. But the veto proved to be only a temporary victory. Criticism of Agency Sought

In the summer of 1970, before the veto, the Reagan administration circulated 3,400 letters soliciting criticism of the California agency from county officials, lawyers, judges and others. The letters were sent out by Lewis K. Uhler, director of the State Office of Economic Opportunity, which supervised grants from the parent Federal agency.

Governor Reagan, re-elected in November 1970, said that he had exercised his veto because the California agency had "created furor and turmoil" and had "lost credibility."

"The evidence obtained by the California State Office of Economic Opportunity during its extensive review of C.R.L.A. indicates that this organization has misused taxpayer funds and has failed in its mandated purpose of serving the true civil legal needs of the poor within its geographic areas of operation," he added.

Six months later, after an extensive investigation that cost hundreds of thousands of dollars, a special Office of Economic Opportunity commission of three State Supreme Court justices from other states said Mr. Reagan was wrong. Agency Called 'Exemplary'

"Not a shred of evidence showing actual misconduct has been adduced," said the report of Justices Robert B. Williamson of Maine, George R. Currie of Wisconsin and Robert B. Lee of Colorado. Instead, they added, the agency "has been discharging its duty in a highly competent, efficient and exemplary manner."

Frank C. Carlucci, the Nixon Administration's director of the Federal Office of Economic Opportunity, had moved to keep the California legal agency in business pending investigation of the Reagan charges. Mr. Carlucci, now Deputy Secretary of Defense, ultimately issued a new grant after Mr. Reagan and the Nixon Administration reached an agreement on the matter.

In his last three years as Governor, Mr. Reagan approved other grants to the legal agency. But he fought hard for six months before surrendering. He was in a delicate political situation. In 1968 he briefly tried to wrest the Republican nomination from Richard M. Nixon, who thereafter saw Mr. Reagan as a potential opponent. In January 1971, while the issue was still being debated, he went to Washington to speak to the National Press Club. While he was in Washington he called on President Nixon.

When he got back to Sacramento, reporters asked if he had talked to Mr. Nixon about the legal agency. Governor Reagan said, "Without asking for any answer or reply from him, I simply explained to him what the case was." The reporters asked if that conversation covered Mr. Reagan's future political plans; the Governor said he told Mr. Nixon that he would not run for President in 1972. Apprehension on Agency

Mr. Reagan's apprehension on the legal agency situation was apparent when he said he thought the Nixon Administration would "like to find some way to not sustain my veto."

A few days later the Administration extended the legal agency's life until July 1 to allow time for

investigation of the Reagan charges. At that time the issues were resolved with a new grant.

In 1974 Mr. Nixon signed into law a bill that created the Legal Services Corporation, which since then has controlled the funneling of Federal money to poverty law agencies. And the California agency has flourished, with 75 lawyers and 40 paralegal employees working in 15 offices throughout the state.

Mr. Abascal, its legal counsel, said he believed the Reagan Administration's domestic advisers saw poverty law offices as possible opponents to their plans to cut back on welfare programs.

"They have to remember when they were in Sacramento," he said, "and how people like us thwarted what they wanted to do. They don't want people like us around. All we'll do is cause them trouble."