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## Pensions and penury: the Galveston experiment prepares to go national

Bush plan to follow Texan lead in ending social security splits US

**Julian Borger in Galveston**  
**Monday February 28, 2005**

[The Guardian](#)

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The island of Galveston, just off the Gulf coast of Texas, does not have a happy place in American history. In 1900 it was the site of the worst natural disaster in US history, a hurricane that killed more than 6,000 people.

Half a century later two ships laden with fertiliser exploded, incinerating 600 locals and levelling much of Texas City on the other side of Galveston bay.

Now Galveston is in the process of becoming famous once more. No one has been killed this time, but the impact on the rest of the country could be far greater.

It began in 1981, when the old cotton port and two neighbouring counties decided to opt out of the federal pension scheme, known as social security, and set up individual investment accounts for county employees.

The decision was hardly noticed outside southern Texas at the time, but it has now taken on national significance. President George Bush has committed his second term in office to doing across America what Galveston county did 24 years ago.

There is no governmental institution more central to American everyday life than social security. Since 1935, when Franklin

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Roosevelt established the scheme as a central pillar of the New Deal, almost every American has contributed to it and drawn from it.

In almost every transaction, from applying for a mortgage, to buying a gun or adopting a dog, people identify themselves by their social security number.

It is a sacred cow of the American way of life and President Bush wants to slaughter it, or at least stick the first knife in. He proposes to begin privatising the system, allowing Americans to divert some of the money they would have paid in social security contributions into personal investment accounts.

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It is likely to be the biggest ideological battle for a generation, in which armies of lobbyists, propagandists and activists - every bit as mighty as those who fought over the decision to invade Iraq - are being assembled and sent into the field.

In the eyes of reformists it marks the decisive showdown between the forces of liberalism and conservatism. Privatisation, they predict, will ultimately replace a generation of state

dependants with a generation of independent stockholders, and in so doing create an unassailable Republican majority.

"Bush has a real opportunity of creating a generation of Republican voters by creating a culture of owner-capitalists," said Stephen Moore, president of the Club for Growth, a free-market pressure group, and a prominent Bush ally. "There will be an increase from 50% to 90% of American [adults] holding stock. That's a huge increase in the proportion of shareholders who realise what's good for America is good for them."

Grover Norquist, president of Americans for Tax Reform, and a leading Republican strategist, put it this way.

"If 100% of Americans at age 18 knew they were going to retire with a savings account, it would change their attitude to regulating companies, it would change attitudes towards envy, and how they feel about rich people," he told the Guardian.

"The entire secular growth in the Republican vote can be explained by the growth of stock ownership. It changes what you read, what you watch, and what you think."

It is in this heady, high-stakes atmosphere that Galveston and a retired court clerk called Evelyn Robison have found themselves in the eye of the gathering ideological storm.

While local civic leaders say the Galveston experiment represents a triumphant model for the country, Mrs Robison, who retired last year after 45 years' service, insists the scheme has left her about \$250 a month worse off than if she had been allowed to stay in social security.

"They promised we would get three to four times as much as social security but ... I do not know one person who came out ahead," she said. "This is not the model they should use."

Though she walks with the aid of a cane these days, Mrs Robison speeds around town to rail against the Galveston plan, and encourage the more timid of the retired to speak out.

Rick Gornto was one of the Galveston plan's founders and is now president of First Financial Benefits, which administers the scheme. He sighs when he hears Mrs Robison's name and points out that she withdrew \$40,000 from her account five years before her retirement to pay for heart surgery for her

husband, under a clause allowing early withdrawals in cases of hardship. It inevitably reduced her pension.

"I realise we allowed people to take money out and that may have caused these problems. And we have now changed those hardship provisions," Mr Gornto said. He argues that, such special cases aside, the scheme has generated average returns of more than 6% over its 24 years and made everyone involved better off.

Mrs Robison insists that she has taken her special circumstances into account when comparing the two systems. Her former deputy, Joyce Longcoy, made no early withdrawal and also claims to be several hundred dollars a month worse off.

"How can this be a model?" Mrs Longcoy said. "You can't have what happened to us happen to the whole country."

The critics point to a 1999 study by the General Accounting Office, the investigative arm of Congress, which found that low earners tended to fare worse under the Galveston plan than under social security. It also found that people did better with social security if they lived longer, because the federal system is indexed to inflation. The private plan is not.

For a debate that is supposed to be based on hard numbers, the precise dollar figures are extremely hard to pin down.

Two fundamentals are beyond doubt, however. Firstly, privatisation will offer higher potential benefits in return for greater risk - more so in the Bush plan, which would include stocks, than in the Galveston plan, which is based on bonds.

Secondly, social security involves a significant element of redistribution, because high earners help fund the pensions of the poor, who receive more than they pay in. In a privatised system, it is everyone for himself.

"It presumes you don't have a responsibility to anyone else in society," said Eric Kingson, a social work professor at Syracuse University, who has analysed the Galveston plan and is a critic of the president's proposals.

Mr Norquist, one of the primary architects of the Republicans' low-tax, free-market agenda, concedes that a privatised system

"would end redistribution" but he argues: "The poorest person would be better off than in social security."

Although Mr Bush may not be able to push his plan through Congress this year, demographics and economics are inexorably pushing the country in his direction, Mr Norquist says.

When the tipping point comes, the president's backers say, it will trigger the most profound social change America has seen since the New Deal.

"I think Bush is going to fashion himself a 21st century Franklin Roosevelt," Stephen Moore said. "This is a question of his legacy."

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