

COVER STORY

AT RISK Grocery cashier Sherry Kovas of Palm Desert fears the impact of a new Wal-Mart



KATRINA GILL, A 36-YEAR-OLD CERTIFIED nursing aide, worked in one of the premiere long-term care facilities near Portland, Ore. From 10:30 p.m. to 7 a.m., she was on duty alone, performing three rounds on the dementia ward, where she took care of up to 28 patients a night for \$9.32 an hour. She monitored vitals, turned for bedsores, and changed adult diapers. There were the constant vigils over patients like the one who would sneak into other rooms, mistaking female patients for his deceased wife. Worse was the resident she called “the hitter” who once lunged at her, ripping a muscle in her back and laying her flat for four days. Last month, Gill quit and took another job for 68¢ an hour more, bringing her salary to \$14,400 a year. But like so many health-care workers, she has no health-care benefits from her job. So she and her garage mechanic husband pay \$640 monthly for a policy and have racked up \$160,000 in medical debts from their youngest son Brandy’s cancer care.

In New York City, Joseph Schiraldi, 41, guards one of the biggest terrorist targets in the world: the Empire State Building. For eight hours a day, he X-rays packages, checks visitors’ IDs, and patrols the concourse. But on \$7.50 an hour in the priciest city in the U.S., he’s a security officer without security—no pension, no health care, and no paid sick days, typical for a nonunion guard.

Bellingham (Wash.) day-care teacher Mandy Smith can’t afford child care for her 6-year-old son, Jordan, on her take-home pay of \$60 a day. Neither can commercial cleaner Theresa Fabre on her \$8.50 an hour job. So her son, Christian, 9, waits for her after school in a crumbling upper Manhattan library where the kids line up five-deep to use one of two computers. The librarian doubles as a de facto babysitter for 40 or so other kids of the working poor.

Over the past year, the loss of lucrative white-collar work offshore has dominated news headlines, provoking economic anxiety among middle-class families who fear they may be next. But there’s an equally troubling yet more often over-

STEVE LABADESSA

looked problem among the nation's working poor—for whom the raises come in dimes, the sick days go unpaid, and the benefits are out of reach.

Today more than 28 million people, about a quarter of the workforce between the ages of 18 and 64, earn less than \$9.04 an hour, which translates into a full-time salary of \$18,800 a year—the income that marks the federal poverty line for a family of four (table). Any definition of the working poor, of course, involves some blurry lines. Some, like Gill, who make just above the \$9.04 wage, often bounce around the threshold with their chaotic hours, slippery job security, and tumultuous lives.

There's also the fact that about one-third work only part-time, and more than a third are 18- to 25-year-olds, who may still live at home but may eventually work their way up the ladder. Some perhaps moonlight with a second job. And others may have spouses whose incomes lift their families up. But most poor workers tend to marry people with similar backgrounds, leaving both to juggle jobs as janitors, health aides, and retail workers that don't raise them into the middle class.

Overall, 63% of U.S. families below the federal poverty line have one or more workers, according to the Census Bureau. They're not just minorities, either; nearly 60% are white. About a fifth of the working poor are foreign-born, mostly from Mexico. And the majority possess high school diplomas and even some college—which 30 years ago would virtually have assured them a shot at the middle class.

TOIL AND TROUBLE

NOW, THOUGH, MOST labor in a netherworld of maximum insecurity, where one missed bus, one stalled engine, one sick kid means the difference between keeping a job and getting fired, between subsistence and setting off the financial tremors of turned-off telephones and \$1,000 emergency-room bills that can bury them in a mountain of subprime debt.

At any moment, a boss pressured to pump profits can slash hours, shortchanging a family's grocery budget—or conversely, force employees to work off the clock, wreaking havoc on child-care plans. Often, as they get close to putting in enough time to qualify for benefits, many see their schedules cut back. The time it takes to don uniforms, go to the bathroom, or take breaks routinely goes unpaid. Complain, and there is always someone younger, cheaper, and newer to the U.S. willing to do the work for less. Pittsburgh native Edward Plesniak, 36, lost his \$10.68-an-hour union job as a janitor when the contractor fired all the union workers to make way for cheaper,

nonunion labor. So far, Plesniak has been able to dredge up work only as a part-time floor waxer. The pay: \$6.00 an hour, with no benefits. "I feel like I'm in a nightmare," says the married father of three. "And I can't wake up."

What's happening in the world's richest, most powerful country when so many families seem to be struggling? And what can be done? There's no question that robust growth is a potent remedy: Recall that the full-employment economy of the late 1990s reduced the ranks of the working poor. Five years of a 4% jobless

rate bid up wages across the board. That brought a healthy cumulative 14% pay hike, after inflation, to those in the bottom fifth between 1995 and 2003, when they averaged \$8.46 an hour, according to an analysis of Census data by the Economic Policy Institute (EPI), a liberal Washington research group. The share of the workforce earning subpoverty pay actually shrank eight percentage points, to 24% last year, or 5 million fewer than in 1995.

That's real progress, certainly. But it still leaves many workers earning less than what it takes to lift a family above the poverty line. In other words, the boom didn't last long enough to bring more people into better circumstances. Now, in the current recovery, there has been brisk growth again, as well as high productivity and job creation. But so far, wages at the low end haven't budged much. Many of today's economic gains are flowing to profits and efficiency improvements, and the job market isn't tight enough yet to lift pay for average workers, much less for those on the bottom. Of course, if the recovery continues apace, a strong labor market could bump wages up.

Perplexing, too, are signs that many jobs the working poor hold won't, over time, lead them out of their straits. Five of the 10 fastest-growing occupations over the next decade will be of the menial, dead-end variety, including retail clerks, janitors, and cashiers, according to the Bureau of Labor Statistics (table, page 63). What's more, while full employment in the 1990s may have brought higher pay for people like health aides and maids, the ladder up into the middle class has gotten longer, and they are more likely than in other periods to remain a health aide or a maid.

A 2003 study of 1990s mobility by two economists at the Federal Reserve Bank of Boston found that the chances that poor Americans would stay stuck in their strata had increased vs. the 1970s. Given the economy's strong showing in the '90s, that's a concern. "If current trends persist, a greater and greater share of wealth will keep going into the hands of the few, which will destroy initiative," worries James D. Sinegal, CEO of Costco Wholesale Corp., which offers above-average pay and benefits in the retail

The Working Poor: Who's In The Ranks

The majority are white, female,
and high school educated

	LOW-WAGE* WORKFORCE	TOTAL WORKFORCE
AVERAGE HOURLY WAGE 2003		
	\$7.09	\$17.15
GENDER		
Female	58%	45%
Male	42%	55%
RACE		
White	58%	73%
Hispanic	22%	11%
Black	14%	10%
Asian/other	6%	6%
EDUCATION		
Less than High School	23%	6%
High School	37%	29%
Some college	31%	29%
College or more	9%	36%
AGE		
18-25	37%	10%
26-35	22%	25%
36 plus	41%	65%
OCCUPATION		
Services	50%	18%
Operations	21%	24%
Clerical	15%	16%
Managers	12%	41%
Others	2%	1%

*Low-wage refers to hourly wage rate necessary for a family of four to just surpass the poverty line (weighted) with full-time, full-year work. In 2003, this wage was \$9.04.
Data: Economic Policy Institute

sector. "We'll no longer have a motivated working class."

So although a fast-growing economy and full employment are necessary for powering wages at the bottom, they may not be enough in today's economy. To survive in waves of increasing global competition, U.S. companies have relentlessly cut costs and sought maximum productivity. That has put steady downward pressure particularly on the lowest rungs of the labor force, while rewarding the growing ranks of educated knowledge workers. In this increasingly bifurcated job market, workers who lack skills and training have seen their bargaining power crumble relative to those higher up the scale.

For one thing, globalization has thrown the least-skilled into head-on competition with people willing to work for pennies on the dollar. And a torrent of immigration, mainly poor rural Mexicans, has further swelled the low-end labor pool. Together, these trends have shoved many hourly wage occupations into a worldwide, discount labor store stocked with cheap temps, hungry part-timers, and dollar-a-day labor in India, Mexico, and China, all willing to sell their services to the lowest bidder. Against such headwinds, full employment offers only partial protection.

What's more, other traditional buffers don't help low-end workers as much anymore. While labor unions were largely responsible for creating the broad middle class after World War II, bringing decent wages and benefits to even low-skilled employees such as hotel and garment workers, that's not the case today. Most U.S. employers fiercely resist unionization, which, along with other factors, has helped slash union membership to just 13% of the workforce, vs. a midcentury peak of more than 35%.

GRAVITATIONAL PRESSURE

THE FEDERAL MINIMUM WAGE, too, long served as a bulwark against low pay by putting a floor under the bottom as the rest of the workforce gained ground. At \$5.15 an hour, it remains 30% less than it was in 1968, after inflation adjustments. It hasn't moved in nearly seven years, victim of a divided political Establishment in which programs for a relatively powerless group of ten get jammed up in bipartisan gridlock.

Add to all this the fact that a college degree, the time-tested passport to success, is today less available to those without family resources. The cost of college has exploded, leaving fewer than 5% of students from bottom-earning families able to get that all-important diploma. The result:

The pattern of low skills crosses the generations (page 68). Columbus Harris, 50, a \$6.75-an-hour driver for the elderly in Pine Bluff, Ark., couldn't help his kids with college. So his middle son Christopher joined the Army to get an education. "I worry about the fact that a lot of the gains in educational attainment are concentrated among the youngsters from rich and upper-middle-class families," says Gary Burtless, a senior fellow at the Brookings Institution.

There are no easy

As globalization quickens, the **UNSKILLED** American worker is at a distinct disadvantage

policy prescriptions for improving the working poor's prospects. Measures with any real impact are almost always costly and ignite political fights over priorities (table, page 64). Lifting the minimum wage by \$1.50 an hour, for example, would boost the incomes of more than 10 million workers. A majority of the gains would flow to adult women over age 20, mostly nonunionized workers in retail, according to an analysis by the EPI. To support the wage floor over the long term, the minimum would need to be linked to some measure of national living standards, such as inflation or average wages, to keep many families from simply slipping back into working poverty after a few years. Yet trying to hike the minimum wage always sparks a monumental battle in Washington. That's just what's happening now, after Senator Edward M. Kennedy (D.-Mass.) proposed to lift it to \$7.00 an hour.

Writing some new rules for globalization would shore up low-end workers, too. Some Democrats advocate linking trade pacts to labor rights, by, for example, requiring countries that want favored trade status to allow workers to form unions. The idea isn't to eliminate low-wage competition—an impossibility, in any case—but simply to blunt its sharpest blows, particularly on less-skilled, predominantly male factory workers. Many economists calculate that globalization has been responsible for about one-fifth of the decline in blue-collar pay since 1973. But just think back to the fight over NAFTA a decade ago to see how far such proposals might go in Congress.

Curbing the flood of unskilled immigrants, assuming it could even be done, also would ease some of the gravitational pressure on low-end pay. Slowing the pace of entry, or shifting the flow toward higher-skilled workers, would mitigate the stiff wage competition among everyone from janitors to sales clerks. Yet if anything, political momentum seems to be moving in the opposite direction, such as President Bush's proposals earlier this year to set up a temporary worker program.

Life At The Bottom

Working one's way up the ladder is becoming harder, not easier. And the difficulty may get more severe

Wages for low-earning men recovered during the boom but are still below their peak...

REAL HOURLY WAGE FOR MALE WORKERS IN THE BOTTOM 20TH PERCENTILE

1973*	1995*	2003
\$9.70	\$8.31	\$9.22

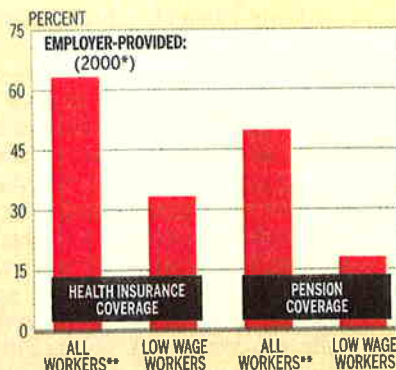
...while those for women, though gaining, continue to lag

REAL HOURLY WAGE FOR FEMALE WORKERS IN THE BOTTOM 20TH PERCENTILE

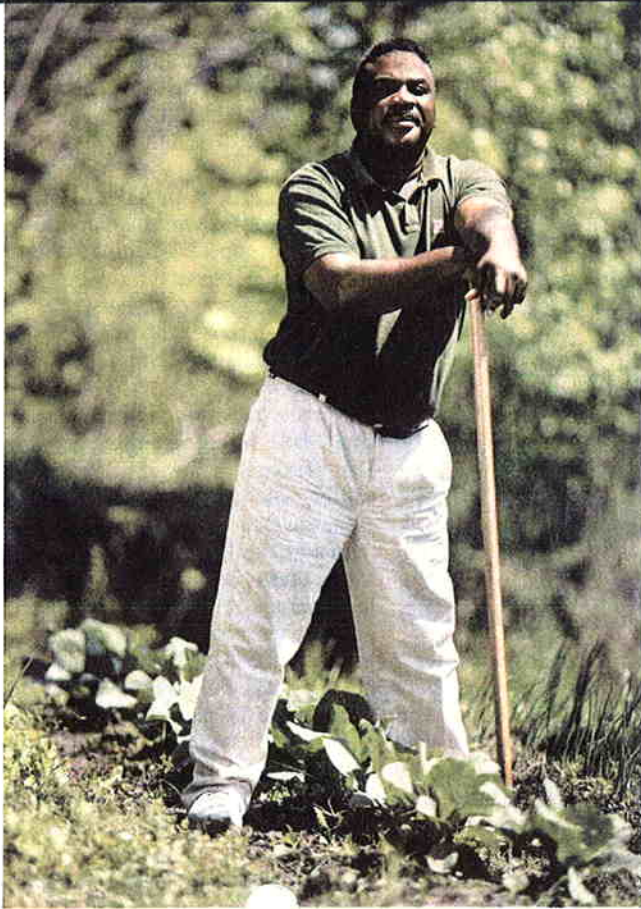
1973*	1995*	2003
\$6.62	\$6.92	\$7.94

*In 2003 dollars

The working poor are also less likely to receive benefits...



*Latest year available **Private-sector wage and salary workers, 18-64, who worked at least 20 hours per week, 26 weeks per year
Data: Economic Policy Institute



PRICED OUT Driver Columbus Harris of Pine Bluff, Ark., couldn't help his kids go to college

nology. Still, the U.S. isn't likely to alter the laws governing unionization any time soon. Employers have body-blocked such attempts since the late 1970s, arguing that profits and economic growth would suffer. Today, labor law reform still goes nowhere, snagged in the broader political deadlock that grips the U.S.

America's divisions surface only sporadically as a pressing issue. Senator John Edwards (D-N.C.) put them at the core of his Presidential campaign, castigating the "two Americas" divided into rich and poor. This prompted John Kerry to adopt a populist tone for a while. Some Democrats urged him to target policies perceived as unfair to both low- and middle-income workers, from trade pacts to tax cuts for the wealthy. Kerry still mentions these issues, but they're hardly a central plank of his platform. Of course, that could change if Edwards ends up joining the ticket. A recent poll found that 78% of voters care more about fighting poverty than they do about gay marriage. "The issue is sitting out there for a candidate to seize on, but voters want to hear new solutions," says Democratic political consultant Tom Freedman.

WHERE HOPE LIES

STILL, HISTORICALLY, class-based appeals have had scant resonance in U.S. politics. In addition, there's little sustained outcry from the working poor themselves, who often are overwhelmed by their personal difficulties and politically disengaged. Only about 40% of them vote, vs. 74% of the investor class, according to the Russell Sage Foundation. "If you look at families in the bottom 20%, they are dropping out of the political system like flies," says foundation President Eric Wanner.

A few initiatives, though, have broad enough appeal to win support from both sides of the divide. Lawmakers from both political parties are struggling to devise ways to help the uninsured get health coverage. While they're split on this subject, too, nearly everyone agrees that something should be done. The Children's Health Insurance Program (CHIP), which covers poor kids, was established by Democrats and Republicans alike, though a lot of children remain uncovered. Any expansion, or a broader solution that involves expanding Medicaid, would help many working poor adults, among the most likely to need coverage.

A hike in unionization... would also give the working poor some leverage over wages. The rule of thumb used to be that union workers earn about one-third more than nonunion ones. But the differential has ballooned with the collapse of pay scales at the bottom. Today, blue-collar workers in a union make 54% more than unorganized ones and are more than twice as likely to have health insurance and pensions, according to an EPI analysis. Because unions boost workers' bargaining power and help them win a greater share of productivity gains, any resurgence would give low-wage workers more clout to deal with the effects of factors such as globalization, immigration, and tech-

...a trend that's projected to increase...



*Median annual earnings up to \$19,600—and less likely to have benefits Data: Bureau of Labor Statistics

...making it hard for many to support their families...

MEAN HOUSEHOLD INCOME RECEIVED BY EACH FIFTH*

BOTTOM FIFTH

\$9,990

SECOND FIFTH

\$25,400

THIRD FIFTH

\$42,802

*Latest year available, 2002 Data: U.S. Census Bureau

...and leaving more Americans stuck at the bottom.

SHARE OF INDIVIDUALS WHO REMAINED IN THE SAME INCOME QUINTILE OR FELL TO A LOWER ONE OVER EACH DECADE

BOTTOM FIFTH



SECOND FIFTH



THIRD FIFTH



Data: Federal Reserve Bank of Boston

Similarly, the 1996 welfare reform effort has brought a rough consensus today that Congress should help welfare moms with child care so they can work. Washington could broaden eligibility for child-care help to include more working-poor families, too. Richer educational loan programs would also help. Given the country's soaring deficits, though, Congress isn't inclined to devote big resources to such projects. One place to look for money might be in the tax code, but in an election year, the high-profile investor class and the organized elderly are likelier to get any new largesse than the working poor.

Government may be stalled, but some employers are stepping up, at least in small ways. A number of leading companies, including Bank of America Corp. and Marriott International Inc., have programs to aid their low-wage workers—they offer small emergency loans or grants to employees who face sudden crises, help them with child care, or find creative ways to make their workdays more flexible. "Assuming employers have answered the question as to whether they're paying market-based wages and benefits, there are still a lot of other things they can do, some of them relatively low cost,"



DEEP IN DEBT Nursing aide Katrina Gill of Portland, Ore., with her son Brandyn. His cancer treatment is costly

says Donna Klein, president of Corporate Voices for Working Families, a business group in Washington that sponsored a recent study on programs for low-wage workers.

Still, even those who push above a poverty-level wage can fall into a trap. Between \$7 to \$10 an hour, they make just enough to start losing what little safety net there is, says Ron Haskins, a former Republican staffer who helped spearhead the 1996 welfare reform, now a senior fellow at the Brookings Institution. They often become ineligible for food stamps or child-care assistance, and the earned income tax credit

starts phasing out for a single parent at \$13,730. "For them, Horatio Alger does not apply," says Haskins.

Women, especially single ones, have the most difficulty. Often, their wages barely cover the cost of child care. Low-income women's pay is actually up since 1973, but they still average just \$7.94 an hour, much less than their male counterparts. That's one reason the U.S. has the highest child-poverty rate in the industrialized world. "Our low-income mothers work twice as hard as those in any other industrial country—but their kids are the worst off," says Syracuse University public policy professor Timothy M. Smeeding.

Lowering The Hurdles: What Can Be Done

Liberals and conservatives agree broadly on some measures but remain deeply split on many others. Looming budget deficits also stand in the way of any major new initiatives.

CHILD CARE Both sides largely agree that poor families, especially single moms, could work more and earn more if they had better day-care options.

EDUCATION The No Child Left Behind Act could ultimately bring along disadvantaged students. So could dozens of lawsuits aimed at equalizing state spending on poor and affluent schools.

HEALTH CARE The GOP and Dems both say they want to insure the uninsured, many of them working poor, although the parties are at a standoff on how to achieve that.

GLOBALIZATION Putting labor standards in trade pacts would blunt the impact on the lowest-skilled workers, but companies argue that doing so would slow economic growth.

IMMIGRATION Neither party has any real idea of how to stop desperate immigrants from undercutting U.S. pay levels. Tougher border policing and sanctions on employers haven't stopped the flood of new workers.

MINIMUM WAGE Raising the wage floor from \$5.15 an hour—which is 30% lower after inflation than in 1968—would help millions of subpoverty workers, but employers successfully lobby against such measures.

TAXES Payroll taxes are a huge burden on the working poor, but it would cost billions to phase them out or offset them by expanding the Earned Income Tax Credit.

UNIONS Making it easier to form unions would allow low-wage workers to fight for higher pay as productivity improves.

THE WAL-MART EFFECT

LATELY, THERE'S A NEW NAME for the downward pressure on wages: the so-called Wal-Martization of the economy. Most recently, the dynamic played out starkly in the five-month Southern California supermarket strike that ended in February. The three chains involved, Safeway, Albertson's, and Kroger, said they had no choice but to cut pay and benefits drastically now that 40 Wal-Mart Stores supercenters would be opening up in the area. The reason: Wal-Mart pays its full-time hourly workers an average of \$9.64, about a third of the level of the union chains. It also shoulders much less of its workers' annual health insurance costs than rivals, leaving 53% of its 1.2 million employees uncovered by the company plan.

Now, after the strike, new hires will have lower wages and bear a much higher share of health costs than current union members, making health insurance too pricey for many of them, too. Eventually, many grocery jobs could wind up paying poverty-level wages, just like Wal-Mart's. "I used to load workers into my truck to take them down to United Way," says Jon Lehman, a former manager of a Louisville Wal-Mart who now works for the United Food & Commercial Workers Union. In his 17 years with Wal-Mart, he kept a Rolodex with numbers for homeless shelters, food banks, and soup kitchens. "They couldn't make it on their paychecks."

It's a prospect that deeply worries workers like

ROBERT MAXWELL

Sherry Kovas. Over 26 years, she worked her way up to \$17.90 an hour as a cashier at Ralph's Grocery Co. store in the posh California enclave of Indian Wells. To Kovas, the Medici-like lifestyles of her customers—the personal chefs, the necklaces that would pay her yearly salary—never seemed so much an emblem of inequality as a symbol of what was possible. Now, though, after the banks foreclosed on some strikers' homes and the repo men hauled away their cars, there's already talk of grocery store closings in the area because of the new Wal-Mart supercenter up the road. "They say Wal-Mart's going to kill us," says Kovas, who fears losing the three-bedroom modular home that she, her five-year-old son, husband, and mother-in-law share. "But I'm 44 years old. I'm too old to start over."

The U.S. has long tolerated wider disparities in income than other industrialized countries, mostly out of a belief that anyone with enough moxie and hustle could lift themselves up in America's vibrant economy. Sadly, it seems that path is becoming an ever steeper climb. Strong recovery and vigorous growth will again get wages growing. But as a new phase of prosperity begins, it may be time for some added advantages for those struggling in a brutal global economy. Otherwise, the outcome could be more polarization and inequality. The farther down that road the country goes, the harder it will be to change course. ■

BusinessWeek **online** For conversations with Costco CEO James Sinegal, Brookings' Ron Haskins, and Russell Sage's Eric Wanner, go to www.businessweek.com/magazine/extra.htm

HIGHER EDUCATION

College Tuition? Gumption Won't Cover It

Even for those poor kids who sweat through honors calculus, surpass 1,200 on the SATs, and graduate class valedictorian, getting a BA is far more difficult than it used to be. At the country's top 146 colleges and universities, only 3% of the student body are from families in the country's bottom quarter of wage-earners, according to an Educational Testing Services report. Meanwhile, 40% of this year's freshman class at the nation's top 42 state universities come from families making more than \$100,000, up from about 32% in 1999, says the Higher Education Research Institute. "I used to be able to tell my kids they would be able to figure out how to pay for school," says Joan Becker, associate vice-provost at the University of Massachusetts at Boston. "Now it's getting more and more difficult, even at the state schools."

Why is it so much harder for the brightest low-income kids to afford college? Start with rising costs. Over the past decade, tuition rose 47% at public four-year colleges and 42% at their private counterparts, according to the College Board. Last year alone, the cost of public college jumped 14.1%. The most elite schools, with their sizable endowments, can afford to supplement student-aid packages. Harvard University, for example, just cut its required parental contribution for families with an income under \$40,000 after President Lawrence H. Summers worried publicly in February that higher education was widening the gap between the haves and have-nots.

At state schools, though, even for those



GRINDSTONE
Rybus is pressed for money and study time

on the elite roster, aid packages are decreasing in the face of tuition hikes. For the 2003-04 school year, total state appropriations for higher education actually declined 2.1%, to \$60.3 billion, according to a survey conducted by the Center for the

Study of Education Policy at Illinois State University. It's the biggest drop in 11 years.

What's more, the federal Pell Grant program, founded to equalize educational opportunities for all Americans, is funding far less. Shortly after the program's 1972 introduction, qualified students could count on the grant to foot 84% of their public-

college tuition. Today, the Pell covers a bit less than 40%. The shortfall between the maximum Pell Grant award—\$4,050 last year—and a low-income families' unmet need averages \$6,200 annually at private schools and \$3,800 at public four-year colleges, says Brian K. Fitzgerald of the Advisory Committee on Student Financial Assistance.

Meanwhile, working students are penalized. Those who slog away in minimum-wage jobs in high school—often to help their parents with expenses—find their Pell

Grant eligibility reduced because the government counts their hours as earned income. Take Larissa Rybus, 19, a first-year student at Ohio's Kent State University. Her father made \$16,000 last year as a self-employed carpenter. A high school honors student, Rybus fears that financial aid, scholarships, and a \$6.50-an-hour pet-store job won't add up to enough to see her through the requirements for an education degree. Says Rybus: "I'm working so many hours I can barely keep my grades up for my scholarships."

For the children of the working poor, getting an education has become not so much a test of intelligence as one of endurance.

—By Jessi Hempel in New York

Priced Out of a B.A.

College-qualified high school grads who complete a bachelor's degree, 2002:

HIGH INCOME (\$75,000 and above)	LOW INCOME (\$24,999 and below)
62%	21%

Data: Advisory Committee on Student Financial Assistance

SCOTT GOLDSMITH