

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	24%	100%
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

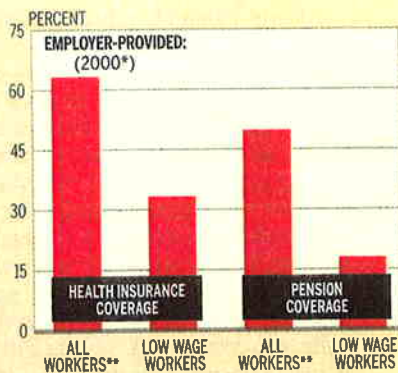
...while those for women, though gaining, continue to lag

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

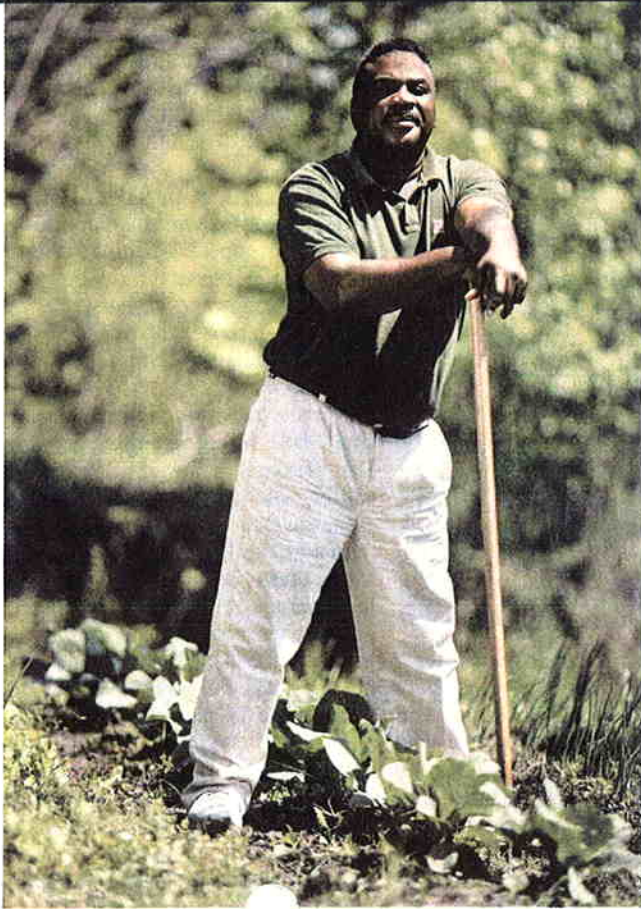
1973*	1995*	2003
\$6.62	\$6.92	\$7.94

*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.

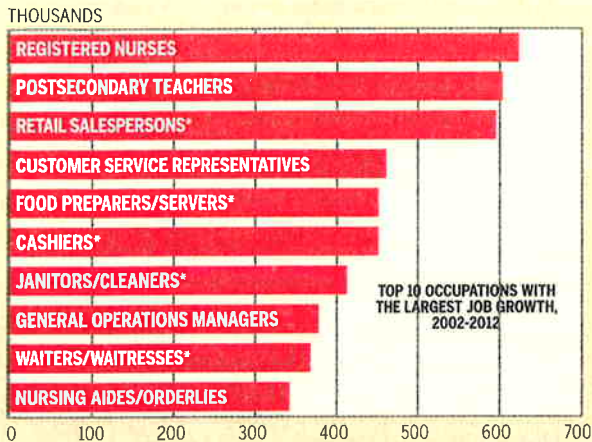
WHERE HOPE LIES

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