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Making ends meet as take-home dollar shrinks

As area residents cope with economics, nonexistent pay raises, downsizing and givebacks, some things have to go.

By James M. O'Neill
INQUIRER TRENTON BUREAU

When Gregory Rendelman faced his three daughters last winter and told them the family would not be taking its traditional vacation to a palm-strewn, sun-dappled island, they looked at him as if he had just sprouted horns.

When Rendelman added that, instead of their usual two long-distance trips a year, the family would settle for a camping trip close to home, 12-year-old Alexis grimaced.

Times have changed in the Rendelman household. Until recently, Greg and Lisa Rendelman personified the American dream. Now, they're cutting back.

And the cuts come large and small.

The couple ponder whether to sell stock holdings, or borrow from their 401(k) retirement savings to slash credit-card debt. They've even toyed with the idea of selling their comfortable suburban Mantua home and buying a condo instead.

The Rendelmans don't face these financial decisions because of an error they made or some investment gone awry. Greg Rendelman simply believed that what happened in America when he was young would continue when he was an adult.

He assumed he'd get a pay raise every year, one that would cover inflation — with something to spare.

Little did he know.

Rendelman's pay raises ended. This year, he must absorb a $25,000 pay cut because the hospital where he works changed the way it calculates pay for its emergency-room staff.

"I used to believe you got a job and worked at the same company the rest of your life," says Rendelman, 39, a nurse-anesthesiologist at St. Agnes Medical Center in Philadelphia. "It was easy not to even think about saving for retirement."

What has befallen the Rendelmans is not unique to them. While corporate downsizing has grabbed headlines, another phenomenon has threatened those who still have jobs. Call it middle-class income erosion. Benefits wither. Pay raises that once beat inflation dry up.

Meanwhile, corporate profits rise, and a small cadre of highly skilled workers and top executives enjoy the benefits.

"I think my dad made out better than I have," says Gerald Monaghan, 37, a produce clerk at the Super Fresh in Bristol, Bucks County. "We're barely making it."

Through the 1960s, the average American worker's weekly wage rose as regularly as the sun. Then, after 1973, it started to decline.

As a result, says Richard Stein, an economist with CoreStates Bank, "people have less money available, and that has fostered a pessimistic consumer outlook."

To combat the slippage, people cut back.

Roseanne Pizzica of Springfield, Delaware County, an Acme cashier whose wages rise a few percent annually, has not been able to contribute to her Individual Retirement Account in six years. "We have nothing saved for college," Pizzica says with regret. "It's a part of the American dream we'd like to have, but can't."

Charles Whitman, of Westampton in Burlington County, once made $45,000 a year as a dispatch operator for a petroleum hauler. He survived five rounds of layoffs and a transfer to Tampa, Fla., only to be let go. Whitman has a new trucking job now, but he makes much less. Meanwhile, he had to use his IRA savings to survive.

"Instead of things getting better as I get older," he laments, "they're getting worse."

Economists don't dispute that assessment. But why wages have declined — as corporate profits and worker productivity have risen — is hotly debated. And what can be done to reverse the trend is an issue that few of America's political leaders are willing to address.

Economists offer a plethora of reasons to explain the salary decline. They point to the competition of cheap labor overseas, the decline in unions' ability to protect wages, and the growing demand for a smaller workforce of more highly skilled people.

Corporate decisions to distribute

a greater share of profits to stockholders and top executives have also eroded middle-class wages, experts say.

"We're seeing a surge in income inequality," says Paul Ryscavage, a labor economist with the U.S. Bureau of the Census. "The top is growing faster and the middle is actually declining."

"There's a sea change going on, and it's not fully grasped by the political parties," says Jeremy Rifkin, founder of the Washington-based Foundation on Economic Trends and author of *The End of Work*.

Companies aren't merely cutting staff, Rifkin says; they're completely redesigning their structures. More companies are relying on smaller full-time staffs. Other jobs are "outsourced" to temp agencies or independent contractors, who offer lower wages and fewer benefits.

Workers are juggling declining salaries with fixed costs and depleting savings.

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Gerald Monaghan recalls cherished summers when his parents packed the family into the station wagon for trips to the Jersey Shore. Monaghan's father, a union leader at Western Electric, earned enough to feed and clothe eight children, and to allow his wife to stay home with them. The family bought a new car every few years.

Six years ago, after they sold their Philadelphia rowhouse, Gerald Monaghan and his wife, Ann, returned to Levittown, Bucks County, where he grew up. They avoided the city wage tax and saved on car insurance. But the house was a fixer-upper.

"We're up to our necks with the mortgage," Gerald Monaghan says.

Both Monaghans work full-time, and Gerald often works a sixth day at the Super Fresh for extra cash. He drives a 1991 pickup that he purchased used, and the family took out a home-equity loan to buy a used car to replace a 1976 clunker.

Gerald Monaghan wants to continue the tradition of Shore summers for his children, but he can only do that when relatives there invite the family to visit.

Things might have been easier if Monaghan's wages weren't stagnant. He's still struggling back from a 1982 layoff. The A&P, where he and Ann worked, closed that year, and when it reopened as a Super Fresh, Gerald swallowed a $3-an-hour wage cut. His wife took a job elsewhere.

In recent years, Gerald's salary has risen maybe 50 cents per hour each year. "So we just don't buy any new things," he says.

Rifkin says corporate executives worry privately about the loss of consumer purchasing power. But these days, the stock market rewards short-term cost-cutting, not long-term planning.

"It's dawned on them they have a problem," Rifkin says. "There's not enough income being generated for average workers to buy the products these corporations produce."

Corporations' other Achilles' heel is the dwindling savings that workers sock away into pension funds. Not only are companies eliminating their matches to worker savings plans, but workers who must juggle declining salaries with huge fixed costs, such as mortgages, often snatch from their retirement money as well, further depleting savings.

And those investments are what companies use to expand, creating more jobs.

Pensions, says Sen. Bill Bradley (D., N.J.), "are a time bomb that people don't want to talk about. But there has to be some personal responsibility. We can't consume ourselves to age 65."

Economists and middle-class workers complain that politicians neglect the wage dilemma. The few who do offer solutions can't agree on what they should be. Some think the government should ensure that the pie of wealth is distributed more fairly. Others think government should spur growth to make the pie larger.

Bradley says government should increase the pie. He says the Federal Reserve Board is too concerned with inflation at the expense of growth, and that interest rates should be lowered further to spark investment.

But even if the nation's wealth grew more quickly, there's no guarantee that corporate America would share it with workers. So Bradley advocates changing labor laws to encourage a resurgence of unions. "The whole legal system has been tilted in favor of the employer, not the unions," he says.

Bradley emphasizes a rebirth of the union movement because he sees public power as the only viable check to corporate power. But he says it will take political leadership to change people's thinking — particularly among white-collar workers. Americans, Bradley contends, address their shrinking wages without help from others. They take second jobs, or buy smaller houses, or both spouses work.

"But at some point, the forces arrayed against people get so large they can't cope. The only thing to offset corporate power," Bradley insists, "is public power. People must understand they have power collectively."

Rifkin takes a different approach. He thinks the government can act as a deal-maker to get the shrinking pie more evenly distributed.

For starters, he says, reduce the workweek to 30 hours, at the same pay people get now, so fewer jobs can absorb more workers. Companies also could start profit-sharing programs and limit CEO compensation. In return, the government could waive a company's payroll tax.

To no one's surprise, it could be a while before such ideas enter mainstream debate. Meanwhile, people continue to cope with plummeting wages by resorting to the solutions that Bradley laments.