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THE NEW DEAL

If America Is Richer, Why Are Its Families So Much Less Secure?

- For 25 years, government and business have forced workers to take on mounting risk. A Times analysis shows ever-larger swings in household incomes.

By Peter G. Gosselin, Times Staff Writer

HORNELL, N.Y. — By most conventional measures, Paul Fredo is an American success story.

The son of a coal miner, he made almost $200,000 in the last year, enough to place him in the top 2% of wage earners. As a financial manager for the U.S. unit of Alstom, the French bullet-train maker, he has lived an expense-account life, spending most nights in hotels and jetting to meetings in Washington and Paris.

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But look carefully at Fredo's circumstances and a less appealing picture begins to emerge — one in which, over the last 25 years, economic risk has been steadily shifted from the broad shoulders of business and government to the backs of working families like his.

By the time Fredo joined Alstom here last year, he had become an itinerant executive, a contract worker brought in for a particular purpose, then sent packing. "They tell me every Friday whether to come back," the 57-year-old explained.

Between his last regular job as the chief financial officer of another company and his hiring at Alstom, Fredo was unemployed for nearly two years and saw his income decline by two-thirds. He has long been without health benefits, holidays, paid vacation or job security.

"We come from the old school that you work hard and give it your all, and the job will be there for you," said Fredo's wife of 35 years, Donna. "It's different today."

From his perch several rungs down the economic ladder, Ron Burtless sees the same forces at play — forces that have caused his family's income to swing sharply up and down.

Unlike Fredo, Burtless never aspired to the executive suite. Instead, almost three decades ago, he reached for a union card and went to work as an electrician at a Bethlehem Steel Corp. plant in Indiana. Until recently, he seemed the very embodiment of Middle American stability, with a $60,000 annual wage, two grown daughters, a red Ford pickup and a five-bedroom suburban home.

But in a matter of just two weeks last year, Burtless' finances were thrown into disarray when Bethlehem collapsed and, adding injury to insult, he was badly hurt on the job and saddled with more than $90,000 in medical bills. Having fallen through cracks in the workers' compensation system, he now ponders a wrenching question: "Am I going to have to go bankrupt?"

In their own ways, the problems encountered by Fredo and Burtless can be traced to the same source — a set of economic policies shaped by government officials and corporate executives intent on creating a more prosperous America.

Starting in the late 1970s, the nation's leaders sought to break a corrosive cycle of rising inflation and stagnating output by remaking the U.S. economy in the image of its frontier predecessor — deregulating industries, shrinking social programs and promoting a free-market ideal in which everyone must forge his or her own path, free to rise or fall on merit or luck. On the whole, their effort to transform the economy has succeeded.

But the economy's makeover has come at a large and largely unnoticed price: a measurable increase in the risks that Americans must bear as they provide for their families, pay for their houses, save for their retirements and grab for the good life.

A broad array of protections that families once depended on to shield them from economic turmoil — stable jobs, widely available health coverage, guaranteed pensions, short unemployment spells, long-lasting unemployment benefits and well-funded job training programs — have been scaled back or have vanished altogether.

"Working Americans are on a financial tightrope," said Yale University political scientist Jacob S. Hacker, who is writing a book called "The Great Risk Shift." "Business and government used to see it as their duty to provide safety nets against the worst economic threats we face. But more and more, they're yanking them away."

The yanking may be far from finished.

On the campaign trail this year, President Bush has made the case that people are better off relying on themselves, rather than on business or government, in case of trouble. Under the banner of the "Ownership Society," the president has proposed a series of new, tax-break-heavy accounts to let families pay for their own retirements, healthcare and job training. He also has called for partially replacing the biggest of the government's protective programs — Social Security — with privately held stock and bond accounts.

Such arrangements might help people build up their personal assets. But the approach also would expose them to even more economic risk than they've already taken on.

Leaps and Plunges

Nowhere is the risk shift of the last quarter century more apparent than in the widening swings in working families' incomes.

Although average family income adjusted for inflation has risen in recent decades, the path that most households have followed has hardly been a steady line upward — the historical norm for most of the post-World War II era. Instead, a growing number of families have found themselves caught on a financial roller coaster ride, with their annual incomes taking increasingly wild leaps and plunges over time.

PHOTOS

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In the early 1970s, the inflation-adjusted incomes of most families in the middle of the economic spectrum bobbed up and down no more than about $6,500 a year, according to statistics generated by the Los Angeles Times in cooperation with researchers at several major universities. These days, those fluctuations have nearly doubled to as much as $13,500, the newspaper's analysis shows.

This growing volatility — and the rising risk it signals — has cut a wide swath. It has touched families from the working poor to those, like the Fredos, near the top of the earnings pyramid. The shifting of risk, in other words, is proving to be a democratic phenomenon.

The Times' analysis is based on the Panel Study of Income Dynamics, which is underwritten by the National Science Foundation and run by the University of Michigan. Unlike most economic measures, which involve taking snapshots of random samples of Americans at different times and comparing them, the panel study has followed the same 5,000 nationally representative families and their offshoots for nearly 40 years.

As such, it is the most comprehensive publicly available record of family earnings and income in the world — and it goes a long way toward explaining why, even in the midst of a recovery such as the one underway, so many Americans feel so uncertain about their economic circumstances.

In using income volatility to gauge risk, The Times is taking a page from the financial markets, where the chief measure of a stock's riskiness is how much its price bounces up and down compared with changes in a market measure such as the Standard & Poor's 500 index.

And just as with the stock market, there can be a big payoff.

Families in the economic middle saw their incomes, adjusted for inflation, climb by almost one-quarter to an average of nearly $50,000 between the early 1970s and the beginning of this decade, the newspaper's analysis shows. At the same time, middle-class families saw their average net worth grow 40% to $86,100 in the last decade alone, according to the Federal Reserve.

The rewards near the top of the economic heap have been even greater. The average income of families in the upper 10% of earners nearly doubled in the last generation to $130,400. Their average net worth nearly doubled as well, according to the Fed, to $833,000.

Free-market advocates cite these pocketbook advances as proof that the economy has been overhauled in the right way.

"On the whole, we have moved toward a freer market, a more competitive economy and a richer one," said University of Chicago economist and Nobel laureate Gary S. Becker. "There has been a shift toward people taking more risk on themselves ... and the economy has gained for it."

But there is another, less sanguine way to view what has unfolded.

The more that a family's income fluctuates, the greater the chance it will be caught in a downdraft when a crisis — such as a layoff, divorce or illness — strikes. Then, it can be extremely tough to bounce back.

Over the last three decades, working families have faced ever-changing — and, for the most part, increasingly more perilous — risk-reward bargains.

During the 1970s, families in the economic middle enjoyed a comparatively favorable run. Although their incomes generally swung up or down as much as 16% a year, they ended each year an average of 2% ahead of where they began. The result by the decade's close was that the reward of extra annual income had more than covered the potential loss from a single year's sudden plunge.

But the story during the 1980s and early 1990s was basically the reverse. The volatility of families' income nearly doubled to as much as 30% a year. But now, instead of growing amid all the ups and downs, average family income dropped at an annual rate of 0.3% in the 1980s and an even steeper 2.3% in the early '90s. The bottom line: more risk for less reward.

Although volatility remained high in the late 1990s, with typical annual swings of as much as 27%, incomes finally began to grow again, improving families' odds of being able to get ahead. But the good times didn't last. Since 2000, incomes have reversed course and fallen about 1% a year, according to recently released census figures. In other words, things are back to the unattractive equation of more risk for less reward.

A separate analysis by Hacker, the Yale political scientist, found even more dramatic changes in income swings. In a study published in May, Hacker and a colleague reported that income volatility among households in the University of Michigan database had more than doubled between 1973 and 1998. The pair concluded that at its peak in the mid-1990s, volatility was roughly five times greater than in the early 1970s.

"The incomes of American families have grown more unstable over the last generation," said Johns Hopkins University economist Robert A. Moffitt, who along with Boston College economist Peter Gottschalk pioneered techniques for analyzing earnings volatility more than a decade ago.

"All other things equal," added Moffitt, who assisted The Times with its analysis, "rising income instability suggests that families from the working poor to those fairly far up the income distribution are bearing more economic risk."

Protector of Last Resort

It was not always so.

With workers' compensation, welfare, unemployment benefits, Social Security, Medicare, workplace rules, environmental regulations, product liability laws and more, government officials spent most of the 20th century adding to the economic protections that Americans could count on — and reducing the risks they had to tackle alone.

"State and federal lawmakers continually expanded the circle of public risk-management programs ... to include workers, the elderly, consumers and, in the end, just about everybody in some form or another," said David A. Moss, a Harvard University economic historian whose book "When All Else Fails" traces Washington's role as a protector of last resort.

Not everyone favored these developments. During the 1935 congressional debate over Social Security, one House member, Republican Charles A. Eaton of New Jersey, fumed: "This is a crazy notion ... that somehow ... the government of the United States can make it ... unnecessary for any of its citizens to face any difficulty, to run any risk."

But so strong was the conviction that working families needed protection, and so firm the consensus that government must help provide it, that leaders of virtually all political stripes sounded as if they were reading from the same script. It would remain this way from the New Deal programs of the 1930s through President Nixon's push for national health insurance and expanded unemployment benefits.

However, by the late 1970s and certainly by Ronald Reagan's election in 1980, new notions began to take hold, ones that turned many an established view about the needs of working Americans on its head.

The sense that something had to change — and that the free market was the answer — was fed by a variety of factors: fear that American business was being overtaken by Japan; concerns that the 1970s near-bankruptcies of Lockheed Corp., New York City and Chrysler Corp. betrayed some deep flaw in the U.S. economy; the influence of economist Milton Friedman, author George Gilder and Wall Street Journal editor Robert Bartley; and Reagan's sunny conservatism.

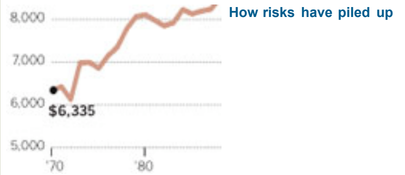
"Government is not the solution to our problem," the new president famously declared. "Government is the problem." Safety nets that were designed to help people were now said to be ensnaring them. Economic upheaval that was long thought to hurt people was now praised for sifting winners from losers. Ordinary Americans who were once simply seen as workers were now regarded as entrepreneurs and investors as well.

Along the way, wittingly or not, they became something else too: huge risk takers. Consider:

- Government used to provide substantial help in coping with joblessness. In the mid-1970s, jobless workers could collect up to 15 months of unemployment compensation. By last December, Congress had pared the program to just six months. Additionally, federal legislation in 1978 and 1986 effectively reduced the value of benefits by making them taxable. And state eligibility restrictions imposed in the late 1970s and early '80s shrank the fraction of the workforce entitled to collect benefits from about one-half to a little more than one-third. Of the 8 million people who were unemployed last month, only 2.9 million were collecting benefits.

- The minimum wage was once the government's chief means of ensuring that "work pays" — that those willing to head to a job each day would make enough to live on. For decades, Democratic and Republican administrations alike maintained the minimum wage at about half of average hourly earnings in the U.S. But starting in the early 1980s, the minimum wage was allowed to slip.

GRAPHICS



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"This is a crazy notion . . . that somehow . . . the government of the United States can make it . . . unnecessary for any of its citizens to face any difficulty, to run any risk."
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• Washington once sought to help people adjust to global competition, industrial restructuring and technological change by offering job training. Twenty-five years ago, the federal government spent $27.3 billion annually (in 2003 dollars) through the Comprehensive Employment and Training Act, or CETA. Even if one doesn't count CETA's "public service" jobs, which were widely criticized as boondoggles, it was still spending $17.1 billion. By contrast, the government now spends about $4.4 billion on CETA's successor, the Workforce Investment Act. "It's largely a place holder," said Anthony P. Carnevale, an authority on education and training who was appointed to major commissions by presidents Reagan and Clinton. "It gives politicians something to point to but doesn't do much good."

• Welfare was created to protect poor women and children, but by the late 1970s a growing chorus of analysts complained that the system had backfired by fostering a culture of dependency. In 1996, President Clinton and a Republican-controlled Congress approved a "work first" law that has cut welfare rolls by one-half and reduced inflation-adjusted welfare spending by at least one-third, or about $10 billion a year. On balance, the changes appear to have benefited people who can find jobs and hold them. But those who can't work or have lost their jobs can often find themselves in far worse shape. Twenty-five years ago in California, a mother of two who depended on welfare collected about $15,000 in cash assistance and food stamps. By last year, a woman in the same circumstances brought in $3,300 less, in inflation-adjusted terms.

"Washington," said Hacker, "has been in a quarter-century-long retreat from what was once one of its primary responsibilities: helping provide economic security."

Upward Striver

Paul Fredo was born in a Pennsylvania coal town called Spangler to a father who lost his mining job to automation; his pension, according to Fredo, to union corruption; and, ultimately, his life to black lung disease. The son was determined to have an easier go of it.

Fredo lifted himself up the way many poor kids do: He joined the military. He spent four years in the Air Force, including a stint in Vietnam, then went on to the University of Pittsburgh, studying accounting at night.

During his early career, he worked for a dairy, a nuclear waste processor and a company that sold tire-making equipment. His Social Security records show that his salary moved progressively higher. He earned $7,800 in 1970, $24,500 in 1980 and $51,300 in 1990.

By 1985, at age 37, he had snared a vice president's title. "I'm going up the ladder," he remembers thinking. He and Donna picked out a design from a Ryan Homes catalog and had a house built along the Ohio River north of Pittsburgh — a blue aluminum-and-brick colonial with four bedrooms, two-and-a-half baths and a 15-year mortgage.

Fredo's income began to dance around during the 1990s as more and more of it came in the form of bonuses rather than straight pay — up $25,000 one year, down $5,000 or $10,000 the next.

Still, by 2000 Fredo was pulling in more than $160,000 annually. And he thought he was in line for the top spot at steel-plant builder Voest-Alpine Industries Inc., where he had been chief financial officer for eight years, helping the company grow from 14 employees to 450.

But in October 2001, as the steel industry swung from boom to bust, Voest-Alpine began to winnow its executive ranks. Instead of a promotion, Fredo was handed a pink slip. The setback seemed to stun family and friends even more than Fredo himself.

"I called my fiancee and said, 'Dad's been downsized,' " remembered Fredo's son Stephen. "She said, 'Did the company go under?' "

Don Battaglia, a Pittsburgh computer consultant who has worked for Fredo, was equally incredulous. "I was convinced he'd be the guy who turned out the lights," Battaglia said.

The Fredos quickly made adjustments. They canceled plans to trade in their 1998 Chrysler sedan. They drew up a bare-bones budget for groceries, utilities, Christmas gifts and an occasional permanent for Donna's hair. They started collecting buy-one-get-one-free coupon books at the Walgreens pharmacy.

Meanwhile, Fredo pulled down his copy of the Iron and Steel Institute's industry directory. Before, whenever he needed a job, he landed one by writing to a few of the companies listed in the book and calling a couple of Pittsburgh employment agencies.

He assumed this time would be no different. Little did he realize how much the world of work had changed.

Employers Break a Bond

For most of the post-World War II era, Washington had a partner in helping to shield working families from risk: corporate America.

Businesses considered themselves duty-bound to provide stable jobs and strong ties to employees, cushioning workers against the vicissitudes of the economy.

Employers must find ways "of protecting the individual against the more damaging effects of inevitable change," Standard Oil of New Jersey President Eugene Holman said in the late 1940s. "So far as the management of my own company is concerned," he added, "we have formed the habit of thinking in terms of ... lifetime employment. That is our goal."

For decades, employers delivered on the promise of job security. "The workers of our parents' generation typically had one job, one skill, one career — often with one company," Bush said last month at the Republican National Convention.

Beyond that, businesses erected a bulwark against the risk of illness by raising the number of workers with employer-provided health insurance from 1.5 million before World War II to more than 150 million. They helped families deal with the economic costs of death by giving life insurance to 160 million of their employees, up from 9 million. And they offered seemingly ironclad protection against the insecurity of old age by boosting the number of workers with pensions from 4 million to 44 million.

But like the government's safety net, corporate America's began to fall apart in the late 1970s — shifting still more risk onto working families.

• Twenty-five years ago, almost 40% of the nation's private full-time workforce was covered by traditional pensions, under which the employer bears the risks and pays the benefits. That number has fallen to 20%. In the place of pensions have come defined-contribution plans such as 401(k)s, under which an employer may kick in some funds — typically about half what would have been spent previously — but employees alone bear the burden of ensuring that they have enough money to retire on.

• A similar shift is underway in health insurance. As recently as 1987, employers provided health coverage for 70% of the nation's working-age population, according to the Employee Benefit Research Institute in Washington. By last year, that had dropped to 63%. The change translates into nearly 18 million people who would have been covered under the old system scrambling to make their own arrangements. What's more, even when employers continue coverage, they increasingly push more of the costs onto employees. Since 2000 alone, employers have raised the premiums their workers must pay by an average of 50%, or about $1,000 a family, according to a recently released study by the Kaiser Family Foundation and the Health Research and Educational Trust.

• When it comes to job security, employers have largely broken the bond they had with workers. A late 1980s study by the Conference Board, a business research group, found that 56% of major corporations surveyed agreed that "employees who are loyal to the company and further its business goals deserve an assurance of continued employment." A decade later, that number dropped to just 6%.

• As a result, people are increasingly likely to be bounced from their jobs, with ever more severe financial consequences. In 1978, middle-aged men could expect to be with the same employer for 11 years, according to Bureau of Labor Statistics data. That's now down to about 7.5 years. Since the 1970s, the average length of an unemployment spell has risen by 50% to almost 20 weeks. The economic damage done when someone is laid off and his or her job is eliminated also has grown — even for those with college degrees. Princeton University economist Henry S. Farber recently found that college graduates laid off in the early 1980s suffered a 10% decline in income through a combination of forgone pay hikes from the old job and lower wages once back to work. By last year, laid-off college grads were taking a far bigger hit of 30%.

"For almost a century, business and government worked in tandem to expand the economic protections afforded working Americans through social insurance programs and career employment," said University of Pennsylvania economist Peter Cappelli. "In the last 25 years, we've stripped most of these away."

For a growing number of people, Cappelli said, the result is unmistakable: "You're on your own."

Starting Over

Paul Fredo entered unemployment in late 2001 vastly better prepared than most Americans.

He was granted six months of pay — roughly twice the typical severance package, according to WorldatWork, an association of compensation executives. He and his wife had hundreds of thousands of dollars in savings, most of it squirreled away for retirement but available in case of emergencies. They had almost finished financing their sons' college educations. And they had recently paid off their mortgage.

Within a week of the layoff, Fredo began getting in touch with his industry contacts but came up dry. He then started sending out resumes a handful at a time. Still nothing materialized. He eventually pitched 900 companies.

"I got two callbacks and an interview that didn't go anywhere," he said.

By the spring of 2002, Fredo changed tactics and began attending Priority Two, a job networking group at nearby Northway Community Church. There, the group's director, Charlie Beck, offered some advice: "You've got to have a hook so they remember you."

Fredo hated selling himself. But he began telling potential employers to remember him as "PAC Man," for planner, analyst and cost saver. He had business cards printed up with an image of the little yellow video-game figure chomping its way across the face.

The effort produced a few temporary consulting assignments. They were better than the alternatives: a $10-an-hour customer service position at a local Verizon Wireless call center, or a job as a checkout clerk at the neighborhood Giant Eagle supermarket. But Fredo soon discovered that landing a decent temp job was almost as difficult as nailing down a good permanent one.

Fredo's job search was foundering on changes in the labor market that had been underway for 25 years but had begun to show themselves only during the last two recessions. Even as the economy rebounded in 2002, many companies were wary about hiring, especially when it came to taking on senior managers. Top executives didn't want to get stuck with fat payrolls if the recovery fizzled. And thanks to technological breakthroughs and new management techniques, they were squeezing more work out of fewer people.

As Fredo's severance pay began to run out, he was forced to rely more and more on unemployment compensation. But this turned out to be a poor palliative — in large part because of his previous success.

Policymakers have been quick to say that the one element of the nation's unemployment compensation system that has remained unchanged over the years has been the so-called replacement rate, the fraction of a person's pre-unemployment wages covered by the benefits. That has stayed rock-solid at about 50%.

But what they usually fail to mention is that the 50% figure applies to the median worker — the one in the middle of the economic spectrum. For the half of American workers who've made above the median, and especially for those like Fredo who've made far above it, the replacement rate is much lower.

The maximum weekly benefit in Pennsylvania in 2002, when Fredo began collecting, was $442 a week. That was 15% — not 50% — of what he had previously earned.

As Fredo's severance pay finally ran out, so did his employer-provided health insurance. That was a big blow to Fredo and his wife because he has high blood pressure and she is diabetic. The Fredos retained their policy under COBRA, the federal law that requires companies to permit laid-off employees to continue coverage for 18 months as long as they pick up the tab for the premium. The Fredos ultimately switched to a less generous policy. But even for this policy, the premiums run $800 a month.

As 2002 turned into 2003, the Fredos hunkered down further. The couple cut their weekly offerings at church. Donna gave up one of her favorite activities, sending packages of toys and party favors to the children in the North Carolina special-needs class taught by her older son Joseph's wife, Maureen.

Things also changed between Fredo and his youngest son, Stephen. As a boy, Stephen had waited up to put his father's dinner in the microwave and greet him when he got home late from work. Now, Fredo was getting up at 7 a.m. to have coffee with his son before Stephen headed off to his new job as a systems analyst at Children's Hospital in Pittsburgh.

Then the elder Fredo would trudge upstairs to spend the rest of the day — and often much of the night — in a bedroom, glued to his computer screen, searching for work.

As Stephen's July 2003 wedding approached, Fredo acknowledged that he was getting desperate; his annual income was down to about $48,000. When the Alstom job opened, he was told it was temporary and would require him to be away from home all week. He jumped at it.

The Great Moderation

If most people don't have much occasion to dwell on economic risk, save for when they pay their auto or homeowner's insurance, the same cannot be said for the wizards of Wall Street and the chiefs of American business.

As part of their effort to harness the power of the market, they have plowed tremendous energy — and money — into understanding risk. Their mathematical equations have let them predict the odds of bad outcomes with growing precision. Their financial inventions have let them shape, share and limit their risk with ever-greater sophistication.

"All of finance — not just insurance, but banking, venture capital, even the stock and bond markets that are so often held out as the very models of what a competitive economy should be — is about managing risk," said Yale economist and financial theorist Robert J. Shiller.

Risk management tools help health insurers tailor coverage so that they avoid people apt to file lots of claims — or charge them more. Credit card issuers have figured out how to target those most likely to carry large balances and yet still manage to pay. Consultants devise variable pay schemes and flexible work schedules that let companies increase output while minimizing their risk of being stuck with unneeded employees.

In these ways, the economy has been reshaped much as government and business leaders envisioned 25 years ago, and with the very result they sought.

After bouts of instability in the 1970s and early '80s, the economy as a whole has begun operating in a smoother, less calamity-prone fashion. The amount that the gross domestic product — a measure of all the goods and services produced in the U.S. — jumps around from quarter to quarter has been cut in half since 1984.

Scholars have dubbed this decline in economic volatility "The Great Moderation." They have praised the trend for significantly reducing the risks that businesses face in making investments and that policymakers must juggle in guiding growth. Working families have also reaped substantial benefits, with inflation held mostly in check for more than 20 years.

And yet — with the new tools of high finance largely unavailable to them — there has been a huge downside for families as well.

Although the overall economy has become steadier — settling into a pattern of long swells of growth followed by relatively gentle dips — the incomes of working people have been beset by ever-larger fluctuations. Looked at in this way, "we haven't reduced economic risks" at all, said Harvard economist Martin L. Weitzman. "We've simply redistributed them from the economy as a whole to individual households."

Among those households is Ron Burtless'.

Blue-Collar Security

Burtless arrived at Bethlehem Steel's sprawling Burns Harbor, Ind., plant at the southern tip of Lake Michigan on a cold day in March 1975. The steel industry was near its zenith, and jobs at the factory looked as durable as the heavy metal sheets that are its specialty.

So confident were industry executives about steel's permanence on the American scene that they had recently signed a landmark labor pact with the United Steelworkers union. What the industry got from the Experimental Negotiating Agreement was a no-strike pledge. What it gave in return was perhaps the richest package of wages and benefits in the history of the industrialized world.

The accord promised an indefinite string of 3% raises. In an era when oil embargoes and Soviet grain deals had sent prices flying, it provided complete protection against inflation above and beyond the 3%. It set the stage for improvements in health, dental and eye-care coverage; extra unemployment and workers' compensation in case of layoff or injury; and even employer-paid "sabbaticals" for plant veterans.

In short order, the agreement helped Burtless more than double his income from $13,500 in the mid-1970s to $32,000-plus in the early 1980s. The money gave him the wherewithal to buy a blue three-bedroom ranch house near the plant and an American Motors Javelin with V-8 engine and dual exhausts.

Just as important, the labor pact inspired the young electrician to set a long-term goal — to hang on until March 2005, when he would hit the 30-year mark with Bethlehem and could quit with an ample pension and health insurance for life.

At that point, Burtless would be only 50 years old, and he could pick up, move or start a new career at almost no risk to his economic security. "It was going to be my freedom," he said.

But in 1982, Big Steel buckled. A combination of recession, foreign competition and a tripling of compensation costs clobbered the industry. In short order, steel producers ditched the groundbreaking labor accord and Bethlehem cut its workforce from nearly 80,000 to 34,000. Steel sabbaticals were out.

To this day, Burtless is foggy about what happened. All he remembers is that the neighbors in his suburban subdivision, all steelworkers, began to go bankrupt and lose their homes at foreclosure. His own income dropped in inflation-adjusted terms from $32,000 in 1982 to $28,000 five years later. His marriage fell apart.

"I figured my income would keep on rising, but here we were doing givebacks" at the union negotiating table, he said. "It got pretty bad."

Over time, Burtless rebounded by signing up for all the Sunday and holiday shifts he could. He won custody of his daughters, Mary and Patty, after a two-year court battle. And in 1992 he remarried, this time to a fellow steel-plant employee, Toni Brown.

Brown, who'd endured her own financial setbacks during the steel bust of the 1980s, brought an extra $50,000 a year to the Burtless household, almost doubling the family's annual income. In 1993, the couple built a $150,000 five-bedroom, three-bath house to shelter their new clan, which was made up of Toni and her four children from a previous marriage as well as Ron, Mary, Patty and eventually Patty's young son, Nicky. They outfitted the place with cherry furniture and a 35-inch Magnavox TV.

They also took out several loans and a $30,000 second mortgage to finance a parade of motor vehicles that at various times included a van, a sedan, a Jeep, a truck, a motorcycle and a Dodge Caravan. In 1996, they bought into a vacation time share in the Caribbean.

Still, at about $1,500 a month, their mortgage payments weren't exorbitant. And as the family settled in, and as Mary and then Patty got their own places, they

were able to manage the cost of their day-to-day lives pretty easily. They even stashed $72,000 in a 401(k) — about twice what Federal Reserve statistics show a typical couple their age saves.

Then, in 2000, the Burtlesses went through a bitter divorce. Among other things, Ron had to give up half the money in the 401(k).

Two Incomes, More Debt

Like Ron Burtless, millions of Americans have relied on two factors to help them handle the heightened risks of the last 25 years: the entry of women into the paid workforce and borrowing.

Today, more than 70% of mothers work outside the home, compared with less than 40% in the 1970s. Although women's arrival in the full-time workforce has been driven by forces as disparate as feminism and the triumph of brain jobs over brawn, their influx could hardly have come at a better time for millions of working families. It has provided households with the insurance of a second wage earner in case anything happens to the first.

Yet women's employment also has meant new costs — for day care, extra cars, more meals out. And most families have treated the additional income not as savings to be set aside in case of emergency but as a means of raising living standards.

An analysis of two decades of the government's Consumer Expenditure Survey, Washington's tally of what Americans buy, shows that the fraction of spending going toward big-ticket items such as houses, cars and schools has increased to more than 50% as the number of earners within families has grown.

The situation "puts families in a bind," said Raj Chetty, a UC Berkeley economist who specializes in studying risk. "It means that if they are hit with an economic shock, they have to adjust to it by making bigger changes in the part of their budget that is still not locked in."

In other words, people have ended up leading lives that are both more prosperous and more precarious.

To help cope, many Americans have borrowed. Arguably, borrowing has become for this generation what unemployment compensation, the GI Bill and government-guaranteed mortgages were for a previous one — a way to tide over one's family during bad times and reach for a better life.

The traditional measure of household debt — calculated as a percentage of a family's after-tax income — has climbed from 62% a quarter century ago to almost 120%, according to Federal Reserve statistics. Much of that increase is from the rush of mortgage lending during the last decade. But non-mortgage debt, including credit cards and auto loans, also has risen, from 15% to almost 24% of after-tax income.

Economists and policymakers have generally applauded the growth of borrowing as a boon to the economy and a blessing for average Americans. They have portrayed the extension of credit to families further and further down the income scale as part of a sweeping democratization of finance.

But even upbeat commentators such as Dean M. Maki, a former Fed economist now with J.P. Morgan Chase & Co. in New York, acknowledge that families' growing reliance on debt exposes them to new risks, especially if interest rates rise. Maki estimates that the interest cost on about one-quarter of household debt is now variable and prone to swell if overall rates go up.

The borrowing boom has already produced one disturbing trend — a sixfold increase in personal bankruptcies since 1980. Bankruptcy filings reached a record 1.625 million last year and were up again through March of this year. Two decades ago, they totaled 288,000.

"We've allowed bankruptcy to become commonplace in America," said Elizabeth Warren, a Harvard Law School professor who, with her daughter, Los Angeles business consultant Amelia W. Tyagi, has written an influential book on bankruptcy and people's financial strains called "The Two-Income Trap." "Last year more people filed for bankruptcy than filed for divorce or were diagnosed with cancer or graduated from college."

Ron Burtless may well be next.

Misfortune Multiplied

By the beginning of last year, partly by gobbling up as much overtime as he could, Ron Burtless had managed to get back on his feet financially.

So, too, had Bethlehem Steel.

After a succession of losses through the 1980s, the company posted a profit in four of five years after 1993. It spent close to $1 billion modernizing Burns Harbor and other plants and began winning back market share from foreign rivals.

Among the many advantages of Bethlehem's return to profitability was that it was allowed to run its own workers' compensation program instead of being required to buy expensive insurance against industrial accidents, as most companies must. At Burns Harbor, the program was backed only by a sort of standby policy from another corporate giant, Illinois-based Kemper Insurance Cos.

It was an arrangement that Burtless had no reason to pay any attention to — until a year ago Easter Sunday.

From his first day at Burns Harbor, Burtless had worked at the front end of the steel-making process, where coal is turned into coke by heating it to 2,300 degrees. (The coke is combined with limestone and ore to form molten cast iron. The molten iron then goes to a blast furnace, where it is transformed into steel.)

At close to midnight on the holiday, a locomotive delivering 36 tons of fire-red coke to be quenched with thousands of gallons of water suddenly stalled. Burtless, the electrician on duty, was dispatched to find out why. As he reached for the ladder to scramble up into the engine cab, he fell into an open trench of boiling runoff.

Train operator Ron Lewis still recalls the scream: "It was like in the movies when somebody's getting electrocuted."

By the time Lewis got to him, Burtless was talking rapidly, joking about having been "lobstered," insisting he wasn't badly hurt. The plant ambulance raced him to a local hospital, where the doctor took one look and sent him on to Loyola University Medical Center's burn unit in Chicago.

Burtless remembers Patty getting on the phone and describing Nicky's day at nursery school to distract him from the pain. The nurses came in at 3 every morning to debride the wounds, scraping away the damaged layers of skin in search of what was still alive. Burtless suffered chills, and he underwent a lengthy operation in which skin was stripped from his upper thighs and grafted onto his lower legs.

He would soon discover that he had been stripped of his financial security as well.

After its mid-1990s comeback, Bethlehem Steel had stumbled again, the victim of intense foreign competition, industry consolidation and failed investments.

In May 2003, with Burtless still at Loyola recovering from surgery, the company sold all of its assets — but almost none of its liabilities — to International Steel Group, a two-year-old firm set up by investor and "vulture" fund operator Wilbur L. Ross Jr. At virtually the same moment, Kemper Insurance found itself sinking under a mountain of claims, many of them connected with Enron Corp.'s implosion and the priest abuse scandal in the Catholic Archdiocese of Boston.

The combination ripped right out from under Burtless the workers' compensation safety net that was supposed to have caught him when he fell.

It remains murky who is responsible for Burtless' medical bills. Lawyers for Bethlehem and the Indiana Workers' Compensation Board say Kemper should be covering the costs of injured workers such as Burtless. Lawyers for Kemper say Bethlehem stopped paying premiums on its backup policy more than a year before Burtless was hurt, and so the insurer is not responsible. Indiana has a law that bans health providers from trying to collect from injured workers. But because Burtless was rushed across state lines to Illinois for treatment, it's not clear that those protections apply.

The upshot is that Loyola, Superior Air Ground Ambulance of Elmhurst, Ill., and even local St. Anthony hospital are all dunning Burtless to pay for his care. Their bills come to $92,075.10 — an amount, Burtless said, he can't possibly hope to meet.

Back to the Factory

To save money in the months after his discharge from Loyola, Burtless decided to forgo the $200-a-day medical dressings the doctors had ordered for his legs. Instead, he bought Pampers and boiled them to make a sort of papier-mache that he used to swathe his burns.

After Burtless spent weeks wrangling with St. Anthony to continue sending a home health aide, Patty and Nicky moved back in and Patty began taking care of her father. Then Mary returned, too, after her car loans and credit card bills got out of hand and she had to declare bankruptcy.

The sale of Bethlehem Steel did not eliminate the $1,670-a-month pension that Burtless expects to collect someday. That's only because the Pension Benefit Guaranty Corp., a federal agency, picked up the obligation.

But the acquisition did erase the 30-year finish line that Burtless had been pushing for so long to cross. Instead of starting to collect his pension next March at age 50, Burtless was recently informed by the PBGC that he must wait until he is 62.

The company also defaulted on its promise of retirement health coverage for more than 90,000 former and current Bethlehem Steel employees, including Burtless. With no federal agency to guarantee those benefits, they are gone for good.

Without workers' compensation, and with the start of his pension delayed by more than a decade, Burtless decided two months after his accident to hide his wounds under heavy stockings, apply with the new owners and go back to work at Burns Harbor.

He seems reconciled to toiling at the plant until 2016.

"I'm thankful to have the job," he said recently. "But 41 years in the mill seems like a high price to pay for retirement, especially if I have to go broke."

No Guarantees

Last spring, Paul Fredo was making so much money at Alstom that, after paying for health insurance and replenishing the family savings, he traded in his 1998 sedan for a royal blue 2004 Chrysler Concorde.

He and Donna also prepared to celebrate their 35th wedding anniversary in style. Each of 100 people invited to join them at the airport Sheraton in Pittsburgh was to be greeted with a party box containing Teaberry gum, a tiny Etch A Sketch and a refrigerator magnet showing the average income ($8,547), price of a loaf of bread (23 cents) and cost of a gallon of gas (35 cents) in 1969 when the couple married.

"I wanted something retro," Donna said, "but I didn't want the whole anniversary to be retro."

Several weeks before the July 3 soiree, just shy of a year after he'd started at Alstom, Fredo was told by the company that his time was up. He was replaced by a French executive, who would work on the same week-to-week basis.

The Fredos celebrated their anniversary, and Paul spent the better part of the next four months looking for a new job. He recently found a full-time one near Pittsburgh as business manager for a road and bridge builder.

He'll make roughly $120,000 a year — an excellent salary, but only three-quarters of what he made in his last regular job three years ago and about half of what he pulled in at Alstom. He reports to work tomorrow morning.

Times researcher Janet Lundblad in Los Angeles contributed to this report.

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