

## Minimum-Living Wage

### The striking effects of Britain's pay rise

Raising the minimum wage risks margins in the government's own supply chains

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AUGUST 2, 2016 2:01 PM

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When the UK government forced up the minimum wage for over-25-year-olds this year, it did it with rhetorical gusto. “Let me be clear, [Britain deserves a pay rise \(http://www.standard.co.uk/news/politics/summer-budget-2015-chancellor-big-pay-rise-for-britain-9-an-hour-living-wage-10375119.html\)](http://www.standard.co.uk/news/politics/summer-budget-2015-chancellor-big-pay-rise-for-britain-9-an-hour-living-wage-10375119.html) and Britain is getting a pay rise,” declared George Osborne, then chancellor of the exchequer. But last week, [30 office cleaners went on strike \(https://www.theguardian.com/uk-news/2016/jul/28/hmrc-cleaners-striking-over-pay-national-living-wage\)](https://www.theguardian.com/uk-news/2016/jul/28/hmrc-cleaners-striking-over-pay-national-living-wage) because their pay rise never came. Their employer trimmed their hours after the minimum wage rose in April, leaving them with about the same weekly earnings as before.

The twist? These workers clean toilets and empty bins in the offices of HM Revenue & Customs, the government department that enforces the minimum wage.

It is not illegal to cut hours, bonuses, overtime or perks to mitigate the cost of a higher minimum wage. Still, ministers have [lambasted retailers and restaurant chains that have deployed these tactics \(http://next.ft.com/content/11797148-07e5-11e6-a623-b84d06a39ec2\)](http://next.ft.com/content/11797148-07e5-11e6-a623-b84d06a39ec2) for not following the “spirit of the law”.

It would be easy to cry hypocrisy but the story beneath the story bears closer scrutiny. It offers a window into the “fissured workplace”: an under-appreciated theory about why real wages are [stubbornly stagnant \(http://next.ft.com/content/54f0f5c6-4d05-11e6-88c5-db83e98a590a\)](http://next.ft.com/content/54f0f5c6-4d05-11e6-88c5-db83e98a590a) for low-skilled workers across the developed world.

The “[fissured workplace](http://www.fissuredworkplace.net/)” is a term coined by David Weil (<http://www.fissuredworkplace.net/>), an economist and the administrator of the wage and hour division of the US labour department. He says employment relationships have fractured since the 1980s as many big employers have turned to outsourcing, franchising and other structures to boost efficiency by focusing on their core functions. You could add to that list the nascent “[Uberisation](http://next.ft.com/content/a4b6e13e-675e-11e5-97d0-1456a776a4f5)” of jobs into discrete tasks (<http://next.ft.com/content/a4b6e13e-675e-11e5-97d0-1456a776a4f5>) completed by scattered individuals.

As a result, some wage-setting decisions have been replaced by competitive contracting decisions, Mr Weil contends. This exerts a gravitational pull on pay and conditions. At the same time, collective bargaining is harder because it is not clear with whom workers should bargain. The outsourcer? The temp agency? The client?

Some UK workplaces have fractured, too. The cleaners are a case in point. They are employed by ISS, a global

outsourcing company with half a million employees. ISS has a contract to supply cleaning services to a company called Salisbury, which in turn has a contract (via its parent company) to supply facilities management services to HMRC.

Everyone in this chain is pointing the finger at somebody else. ISS implies that it cannot resolve the situation “for our staff’s benefit” without financial help from HMRC. HMRC suggests it is ISS’s responsibility and “in the spirit” of the measure to pass on the minimum wage rise to workers. PCS, the union representing the 30 striking workers, does not have the muscle to break the impasse.

Labour market regulators in the US, including Mr Weil, are trying to resolve this kind of accountability problem. They are [dusting off and deploying “joint employer” rules](https://www.washingtonpost.com/news/wonk/wp/2016/01/20/department-of-labor-sends-warning-shot-to-clients-of-temp-staffing-agencies/) (<https://www.washingtonpost.com/news/wonk/wp/2016/01/20/department-of-labor-sends-warning-shot-to-clients-of-temp-staffing-agencies/>) that allow them to hold large employers accountable for the treatment of workers further down their supply chain, so long as they are economically dependent on them.

The UK does not have such rules but unions are adopting the same principle of leapfrogging straight to the top. The Independent Workers Union of Great Britain, a tiny new organisation operating from the back room of a London dry cleaners, has [won better conditions for outsourced cleaners](https://iwgb.org.uk/how-we-began/) (<https://iwgb.org.uk/how-we-began/>) by campaigning loudly and directly to the institutions where they work.

If the government as an employer wants the “spirit of the law” to be honoured it will have to shoulder the responsibility (and the cost) itself, or work out how to compel its suppliers to do so. Ignore the fissures in its workforce, and the benefits of its ambitious wage policy will leak away through the cracks.

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