

## Consultation Response

**To:** The Low Pay Commission,  
Department for Work and Pensions

**By:** The Intergenerational Foundation

**Date:** 1 September 2015

The Intergenerational Foundation ([www.if.org.uk](http://www.if.org.uk)) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

### **Intro/Response:**

IF welcomes a rise in the minimum wage towards a level at which its recipients can afford a minimum standard of living through the introduction of the National Living Wage. However, we strongly reject the proposal to exclude those under the age of 25. Young people already face a restricted minimum wage; they have seen real wages fall over the last 15 years; and their cost of living has been rising.<sup>1</sup> They also face the biggest prospective fall in living standards of any age group as a result of the 2015 Summer budget. IF supports the fair and equal treatment of all current and future generations, and believes that young people are not having their needs served by current or prospective minimum wage legislation. By allowing young people to be paid so poorly, the government is entrenching intergenerational unfairness through legislation, quite literally saying that young people are of less value to society.

### **Cost of living and the plight of young people:**

It is not unreasonable to expect those at the peak of their career to earn more than young people starting theirs. However, IF research has found that between 1997 and 2013, median gross weekly wages have fallen by over 19% in real terms for 18–21 year olds compared to a 25% rise for the over 50s (22–29 year olds' pay has remained steady). This has coincided with a significant rise in living costs, specifically housing costs, forcing young people to drastically reduce their spending in other areas (e.g. a concerning 40% fall in spending on health for under 30s)<sup>2</sup>. This has forced 26% of 20–34 year olds to live with their parents, an increase of 25% since 1996.<sup>3</sup> Many, however, are not lucky enough to have a family home available to them, forcing many onto the streets (the number of young people sleeping rough in London has doubled over 5 years<sup>4</sup>) or to leave their home towns.

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<sup>1</sup> D. Kingman & A. Seager (2014), *The Intergenerational Pay Gap and the Cost of Living Crisis*, London: The Intergenerational Foundation

<sup>2</sup> *ibid.*

<sup>3</sup> ONS (2013), *Young adults living with parents in the UK*

<sup>4</sup> Crisis (2014), *Briefing on key homelessness facts and statistics-England*

In this context of a lack of affordability, Britain's youngest workers need and deserve a pay rise as much as, if not more than, older workers, and those paid the Youth Development Rate, the 16–17 year old rate and Apprentice Rate are not being paid enough. IF not only rejects the widening of the gulf between the pay of younger and older people, but also supports reducing the gap from its current position.

### **What is a fair level?**

IF advocates that workers of all ages should be able to cover their basic living costs. The Centre for Research in Social Policy and the Living Wage Foundation found in 2014 that outside of London, the minimum hourly wage should be £9.20<sup>5</sup> in order to afford “a minimum standard of living in Britain” and to allow people “to be part of society”.<sup>6</sup> This number varies depending on household composition, rising as high as £21.10 for a lone parent with three children and falling as low as £5.70 for a childless couple. Thus whilst IF welcomes the introduction of the National Living Wage, we do not believe it goes far enough, nor do we see any fairness in excluding young people under 25 years of age. Furthermore, alongside the introduction of the National Living Wage, the Chancellor announced cuts and restrictions to many benefits including working tax credits, child benefit and housing benefit for under-22s.<sup>7</sup> This will raise the required wage significantly (since taxes and benefits were already factored into the £9.20). The specifics of the removal of housing benefit have not been announced, but many people receive over £100 per week,<sup>8</sup> so a complete removal of this benefit could be equivalent to a fall in the wages of young people of well over £2 per hour, increasing the poverty of young people further.

### **Is it reasonable for there to be different rates for different ages?**

IF recognises 5 potential arguments for having a lower minimum wage for younger people, but ultimately rejects them. To be addressed in turn they are:

1. Young people's living costs are lower.
2. Lower wages encourage firms to hire more young people and for a greater number of hours.
3. Young people are less experienced and so their labour is less valuable.
4. Young people receive non-financial remuneration in the form of training, which boosts future wages.
5. Young people should be discouraged from working and instead be encouraged into education.

#### **1. Are young people's living costs lower?**

When announcing his cut to housing benefit for 18–21 year olds Chancellor George Osborne declared “young people in the benefit system should face the same choices as other young people who go out to work and cannot yet afford to leave home”.<sup>9</sup> Thus he clearly believes that young people should have lower living costs since he does not expect them to be paying for housing. However, this option is not available to many people, and can be counterproductive to those who do live at home. A 2010 Shelter report found that 58% of 18–34 year olds living with their parents find it hard to maintain a relationship,<sup>10</sup> and 2009 research by Queen Mary, University of London, found that stay at home sons were more likely to act violently.<sup>11</sup>

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<sup>5</sup> Centre for Research in Social Policy (2014), *Uprating the out of London Living Wage in 2014*

<sup>6</sup> A. Davis, D. Hirsch & M. Padley, *A Minimum Income Standard for the UK in 2014*, Joseph Rowntree Foundation: York

<sup>7</sup> HM Treasury (2015), *Summer Budget 2015*

<sup>8</sup> Valuation Office Agency (2015), *LHA 2015 tables*

<sup>9</sup> HM Treasury, *op. cit.*

<sup>10</sup> Belinda Turffrey (2010), *The Human Cost*, Shelter: London

<sup>11</sup> J. Coid & M. Yang, 'Violence and Delayed Social Independence Among Young Adult British Men', *Social Psychiatry and Psychiatric Epidemiology*, Vol. 45, No. 3, 2010

Furthermore, by the time someone is aged 24 (still not earning the National Living Wage), there is a more than two-thirds chance that they will no longer be living in their family home.<sup>12</sup>

IF believes that once someone has left home, their age is not generally a good indicator of living costs. Following the recent housing benefit restriction announcement it may be the case that the cost of living for young people becomes greater relative to older people. This is because young people have to find more money to pay for their housing. Whether the Chancellor likes it or not, households with a 22-year-old minimum wage worker contain on average 0.5 children<sup>13</sup> and therefore need to provide a safe and secure environment. A couple with a child require a wage of at least £9.33 per hour regardless of whether they are 21, 25 or 35 year old parents. Even a single worker without a child requires a wage of £8.30 per hour. IF believes that using age as a proxy for need is inappropriate and misleading. A 21-year-old single parent has the same needs as 26-year-old single parent. The required wages cited above are based on the cost of living in 2014 and are expected to rise significantly over the coming parliament. This will result in the adult minimum wage being too low even with the introduction of the National Living Wage. Those who do not qualify for the National Living Wage, or even the adult minimum wage, will be left stranded. The Chancellor claimed that “the best route out of poverty is work” and that he wants a higher-wage lower-welfare economy<sup>14</sup>. For young people he has lowered welfare, but has done nothing to raise wages.

## **2. By creating Youth Development/16-17 Year Old/Apprentice rates which are below the adult Minimum Wage, will employers be encouraged to hire more young people?**

Youth unemployment has become a serious burden on today's young people and IF welcomes any proposals to address the problem. IF does not believe that lower wages for young people boost employment however, and we are concerned that it has a large detrimental effect on living standards. Academics, politicians and journalists have argued on both sides of this debate, but we see no clear evidence that the inclusion of all young people in the full minimum wage reduces their employment hours. Hyslop and Stillman found that when New Zealand included 18 and 19 year olds in the minimum wage for the first time, there was no discernible negative impact on their employment, and in fact they noticed a positive change in the number of hours worked by 16–19 year olds.<sup>15</sup> New Zealand retains a significantly lower youth unemployment rate than the UK to this day.<sup>16</sup> Furthermore, employers are not legally allowed to hire or fire people based on their age, so a worker's age should not affect their work prospects, regardless of how much they cost to employ. IF recognises, however, the ease with which employers can get around this rule.

## **3. Since young people are less experienced is their labour worth less?**

The Youth Development Rate and 16–17 Year Old Rate is paid to young people doing the same job as their older counterparts on the minimum wage. IF believes that if a person is qualified and experienced enough to win a job contract, then the value of that person's labour should not and would not depend on their age. Moreover a 17 year old may be better at their job than an 18 year old and a 24 year old may be better at their job than a 25 year old. Arbitrary age related pay barriers are not helpful and not welcome, since age is not a reliable indicator of either ability or need. Even if it were true that a young person's labour is less valuable, the Youth Development Rate, 16–17 year old rate, and Apprenticeship rates are still far too low to live off and we should not expect young people to try to do so.

## **4. Are young people receiving payment through their training instead of their wage?**

Young people only receive more training than their older counterparts if they are in an apprenticeship. In a normal job, the training received would be the same regardless of age.

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<sup>12</sup> Alan Manning (2012), *Minimum Wage: Maximum Impact*, Resolution Foundation: London

<sup>13</sup> *ibid.*

<sup>14</sup> HM Treasury, *op. cit.*

<sup>15</sup> S. Stillman & D. Hyslop, 'Youth Minimum Wage Reform and the Labour Market in New Zealand', *Labour Economics*, Vol.14, No. 2, 2007

<sup>16</sup> OECD Library (2013), *Youth unemployment rate % of labour force (15–24)*

IF recognises that apprenticeship training represents an additional cost to employers and boosts the future potential earnings of apprentices, and so is willing to consider a slightly lower apprenticeship wage. There is no justification, however, for the current level, even including the upcoming increase of 57p to £3.30 per hour, since it is highly unreasonable to expect people to live off this wage. If the government is serious about trying to increase the number of apprentices – a goal of which IF strongly approves – young people need to be incentivised by a higher wage rate.

### **5. Should young people be paid less to encourage them into education?**

IF supports young people's right to be able to go into higher education if they achieve the necessary qualifications to do so. However it is obvious that not all young people will want or be able to do so. Those who do not continue with education have skills which are valuable to the economy and society, and for which they should be paid enough to cover basic living expenses. Furthermore the government has shown no other signs that encouraging young people into education is their objective. Instead they are promoting apprenticeships, increasing student fees and changing the maintenance grant into a loan.

### **Recommendations:**

IF recommends that the government and Low Pay Commission should press ahead with rises in the National Minimum Wage and National Living Wage, but that they should include all age groups. IF also recommends that the gap between the minimum wage for younger and older workers should be narrowed rather than widened. We accept the premise of a lower apprentice rate, so long as the employer is genuinely putting time and money into the apprentices so that there will be a real benefit to the apprentices themselves and that it is at a rate that covers the minimum living costs of independent living for an under-25. The apprentice rate therefore needs to be significantly higher than it is currently. These recommendations would serve to reduce the intergenerational inequality by raising the living standards of the poorest young people, who have already faced over a decade of worsening prospects.

If you would like to learn more about the work of IF please contact:

Liz Emerson  
Co-Founder  
Email: [liz@if.org.uk](mailto:liz@if.org.uk)  
Mobile: 07971 228823