

Consultation Response: “National Minimum Wage rates”

To: Low Pay Commission

By: The Intergenerational Foundation

Date: 27 July 2016

The Intergenerational Foundation (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.

Introduction:

The Intergenerational Foundation (IF) is glad to have the opportunity to contribute towards the setting of National Minimum Wage rates, to apply from April 2017. As a think tank which looks at issues affecting fairness between the different generations, we are keen to ensure that the interests of young people receive significant consideration in determining what the age-related National Minimum Wage rates should be.

Our response:

IF believes that the debate over this issue cannot ignore the wider socio-economic context facing young people. The key dilemma is that the National Minimum Wage rates for 16–17, 18–21 and 21–24 year-olds need to strike a delicate balance between, on the one hand, not harming the employment prospects of young people, and on the other, ensuring that young workers can earn adequate incomes to support themselves through work. This tension is illustrated by the graphs below: Fig.1, which uses data from IF’s forthcoming 2016 Intergenerational Fairness Index (our annual research publication that quantitatively measures the position of young people across 17 socio-economic indicators), shows that the ratio of youth unemployment to general unemployment has been climbing in recent years and appears to be higher than ever before, despite the so-called “jobs miracle” which has seen record levels of employment overall in the UK during the last several years. Although youth unemployment has fallen since the height of the recession, it remains roughly 15%, so clearly there are many young workers who are still struggling to compete in Britain’s labour market (and the true scale of youth unemployment may be masked to some extent by the growth of casualized jobs, particularly zero-hours contracts, which disproportionately affect young people).

However, many of those young people who are in work continue to be buffeted by a combination of pay which is stagnant or falling in real terms, and rising living costs. IF published research in 2012, [*Squeezed Youth: The Intergenerational Pay Gap and Cost of Living Crisis*](#), which used data from the ONS Living Costs and Food Survey to show that young workers have seen their pay decline in real terms over a significant period of time while they were being forced to devote more money to spending on essentials,

particularly housing costs and transport. Evidence for falling wages is also provided in Fig.2, which compares median hourly pay rates recorded in the Annual Survey of Hours and Earnings for different categories of young workers with the average for the labour force as a whole.

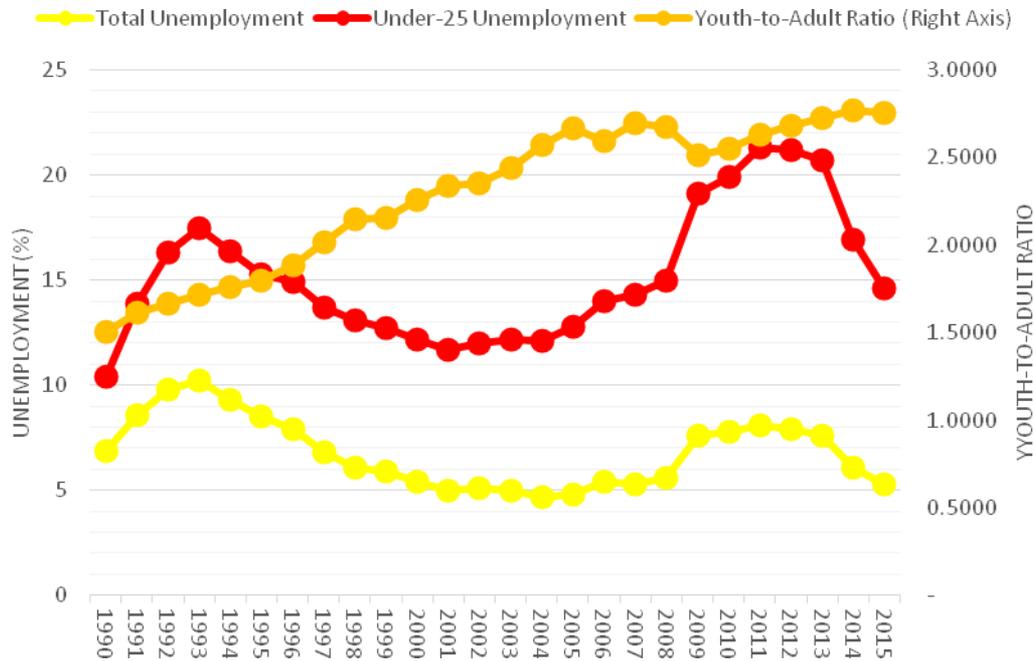


Fig.1 UK youth to adult unemployment ratio, 1990–2015

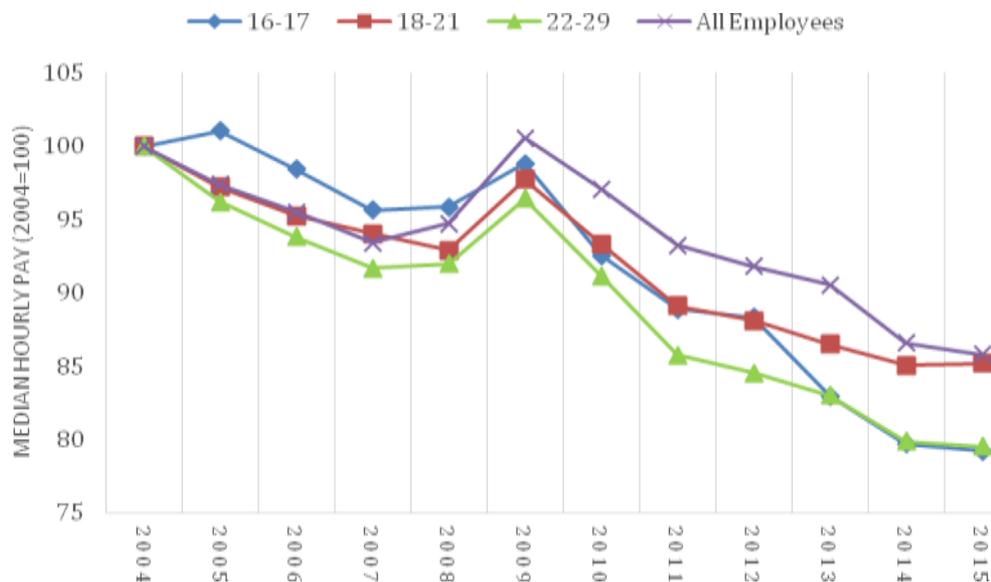


Fig.2 Index of median gross hourly pay for different age groups in 2015 prices (2004=100)

Although real wages have fallen for all ages as a whole over the past 12 years, they have done so especially dramatically for 16–17 and 22–29 year-olds (wages for 18–21 year-olds appear to have held up slightly better, which could be to do with the 18–20 minimum wage rate). This data underlines how the imposition of the National Living Wage for the over-25s is a rather crude tool for protecting the living standards of low-paid workers in this age group, given that workers who are only slightly younger than them have experienced exactly the same problems with declining pay over recent years.

Given the need to make this trade-off between employment levels and living standards, IF would recommend that it should be weighted towards imposing higher age-specific levels for the National Minimum Wage, as there are ultimately other tools at the government's disposal for addressing the problem of youth unemployment, whereas it can do relatively little apart from this to intervene over rising living costs and falling pay.

If you would like to learn more about the work of the Intergenerational Foundation or would like to arrange a meeting to discuss the points we raise, please contact:

Liz Emerson, Co-Founder

Email: liz@if.org.uk Mobile: 07971 228823