

Consultation Response: “April 2019 National Minimum Wage rates”

To: Low Pay Commission

By: The Intergenerational Foundation

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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 respond to the Low Pay Commission (LPC) consultation on the setting of the National Minimum Wage (NMW) rates that will apply from April 2019. In line with our work on intergenerational fairness, we are keen to ensure that the interests of young people receive significant consideration in determining the age-related NMW rates, with particular reference to apprentice rates.

Youth rates

The question over NMW rates for young people cannot ignore the wider socio-economic context facing young people. The key dilemma is that age-dependent NMW rates for those under 25 need to strike a delicate balance between not harming the employment prospects of young people and ensuring that young workers can earn adequate incomes to support themselves through work. The common justification for having separate rates for different age groups is that young people lack workplace experience. However, this contradicts the purpose of the LPC, as it makes judgements about a young person’s worth that depends solely on their age. It sends a damaging message to young people, being paid less than older colleagues doing the same job, that they are worth less. Indeed, paying workers who are doing the same job differently because of their ages can prove divisive within the workplace, with the potential to decrease productivity.¹ It should also be noted that in some of the lowest paid jobs, such as retail and hospitality, a young person under 25 may already have worked for many years in the same job, thus challenging the generalisation that young workers lack experience.

Besides experience, young people should be celebrated for the unique perspective they bring to the workplace. The Chartered Institute of Personal Development found that 43% of employers felt that younger employees were important because of their fresh

¹ New Policy Institute (2017) [Young adults and the minimum wage](#). *Unison*.

ideas and approaches.² Allowing employers to pay them a lower minimum wage has not been attempted for any other group which experiences particular challenges entering the workforce, such as the long-term unemployed, workers with disabilities or older workers, and any attempt to do so would be considered discriminatory. It would appear that, internationally, other economies recognise the benefits of young workers, as their minimum wage rates generally don't differentiate between workers on the basis of age. In Europe, it is only the UK and Greece who draw the highest-age dependent tier at 25 years;³ in other European countries the higher rates of minimum wage often start at 18 or 22 years old. IF calls for the UK to learn from neighbouring countries, and reduce the complex age-dependent tiers which assign value to workers based solely on age. A system, such as that employed in France where minimum wage rates are set on the basis of the amount of experience a young person has had,⁴ would seem fairer to all young workers.

Pay gap

IF suggests the lower age limit which governs eligibility for the National Living Wage (NLW) should be lowered to encompass a greater number of younger workers. The Taylor review of modern working practices recognised the NLW as a “powerful tool to raise the financial base line of low paid workers”.⁵ Yet, workers under 25 cannot benefit from this important safety net, despite often being susceptible to the same financial pressures and living costs. There could be an argument for paying these workers less than their older counterparts if they have lower living costs, but this cannot be automatically assumed. Currently, 2.5 million under-25s are not living with their parents,⁶ meaning they face similar living costs to anyone who is above 25, and in 2016 nearly 18% of children were born to mothers under the age of 25, so a significant number of these workers will also be supporting families of their own.⁷ For young people who begin living and working independently while they are still teenagers, it seems unreasonable that they should have to work for up to 9 years before they become eligible for a minimum wage which, by design, is meant to be adequate to enable low-wage workers to support themselves.

The Taylor review's emphasis that these should be “baseline” rates is also notable. The LPC frequently states that NMW/NLW are floor rates which should represent the baseline. All too often, however, these create ceiling rates, as there are few incentives (especially in the lowest-paid sectors) to pay employees above the levels set by the LPC. Not until these attitudes are changed can the NMW/NLW truly be discussed as floor rates. Whilst some employers may pay young people above the NMW rate, 1.2 million people under 25 still earn less than the NLW – over a third of under-25s in employment.⁸ Based on a 37.5 hour week, this means it would be legal for someone earning the 16-17 year-old rate to receive £7078.50 less in gross income than an over-25 year-old who was being paid the NLW, even if they were doing the same or very similar work. Now that the NLW has significantly raised the wage floor for over-25s, IF

² Chartered Institute of Personnel and Development (2012) [Resourcing and Talent Planning: Survey Report](#). CIPD.

³ Fric, K. (2017) [Statutory minimum wages in the EU](#). Eurofound.

⁴ *ibid*

⁵ Taylor, M., Marsh, G., and Nicol, D., Broadbent, P. (2017) [Good Work. The Taylor Review of Modern Working Practices](#).

⁶ Hansard (Commons) [3rd May 2018](#), column 511.

⁷ Office for National Statistics (2016) [Births by parents' characteristics in England and Wales: 2016](#). ONS.

⁸ Young Womens' Trust (2017) [Paid less, worth less?](#) YWT.

urges the Commission to recommend a reduction in the disparity between it and the rates which apply to younger workers.

Apprentice rates

IF believes the NMW set for apprentices, which is £3.70 per hour for those under 19 in the first year of their apprenticeship, should be raised. Despite the theory that apprentices should receive less because they are being given an on-the-job education, such low wages have the potential to be damaging on two levels. Firstly, it discourages young people from entering this form of vocational training if they have living costs that would make it uneconomic, a problem which the current government should be concerned about because it has very publicly committed itself to raising the number of apprentices. In February 2018, apprenticeship starts were down 40% on the same period in 2017,⁹ despite continued efforts to increase participation. Many apprentices struggle to cover travel costs on this rate of pay,¹⁰ let alone cover other living expenses. Raising the NMW for these new starters may prove a valuable way of attracting more young people.

Secondly, such low minimum wage rates encourage employers to use apprentices as merely cheap labour, with little investment in quality training. The exploitation of apprentices is demonstrated by the high proportion of apprentices that are underpaid, and the large number who receive little formal training: young apprentices in particular are more likely to be exploited, with 24% of 16-17 year olds on low level apprenticeships being underpaid in 2014.¹¹ Additionally, whilst apprentices should be spending one-fifth of their time in off-the-job training,¹² up to 20% of apprentices have said they have never received such training.¹³ Evidently such low rates of pay cannot always be justified by the benefit of vocational training. IF therefore calls for increased efforts to ensure apprentices receive appropriate pay and training. Considering employers don't pay National Insurance Contributions for apprentices, they are already cheaper to employ than other categories of worker, which means that raising the apprentice rate of NMW should be feasible without creating a huge disincentive for employers.

Conclusion

Seeing the balance between employment levels for young people, the costs of living, and workplace fairness, IF recommends the LPC revises the age brackets for the NMW, and brings the baseline of the NMW for young people closer in line with the NLW for over 25s. This is particularly important for apprentices who are just starting out on their journey of vocational training. Ultimately, there other tools at the government's disposal for addressing the problem of youth unemployment (not least doing more to equip young people with skills and work experience that make them employable through the education system), whereas it can do relatively little apart from raising the NMW for young people to intervene in the struggle which the lowest paid young people face to make ends meet.

⁹ Burke, J. (2018) [Apprenticeship starts show biggest drop in six months](#). *FE Week*.

¹⁰ National Union of Students (2015) [Forget Me Not](#). *NUS*.

¹¹ Department for Business, Innovation and Skills (2014) [Apprenticeship Pay Survey](#).

¹² Department for Education (2017) [Apprenticeship off-the-job training](#).

¹³ National Union of Students (2015) [Low Pay Commission Consultation on the National Minimum Wage](#). *NUS*.