

## **Consultation Response:**

“April 2020 National Minimum Wage and National Living Wage rates”

**To:** The Low Pay Commission

**By:** The Intergenerational Foundation

**Date:** 12 June 2019

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.

### **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) and National Living Wage (NLW) rates that will apply from April 2020. IF is keen to ensure that the interests of young people receive significant consideration in determining minimum wage policy, especially regarding the age-related NMW rates.

Specifically, IF would like to make the following policy proposals to the LPC:

### **1. Harmonise all youth rates with the NLW**

As the LPC is well-aware, the design of the NMW has become increasingly complicated over the last twenty years, with the system that was originally created in 1999 – under which there were two separate rates, one for workers aged 18 to 21 and one for workers aged 22 and over – having evolved to the point where there are now five different NMW/NLW rates which apply to workers in different age groups.

IF believes that there is a strong case for reforming this system so that all of the different age-related NMW rates are ultimately harmonised with the NLW. Our reasons for making this argument are as follows. Firstly, the rate of the NMW/NLW needs to reflect the wider socioeconomic pressures facing younger workers, who are burdened to a greater extent than any other age group by the cost of living, and specifically the high cost of housing.<sup>1</sup> The Taylor review of modern working practices recognised the NLW as a “*powerful tool to raise the financial base line of low paid workers*”,<sup>2</sup> yet workers who are under 25 do not benefit from this important safety net, even though they may have living costs which are the same or higher than those of people who are older than them. Currently, 2.5 million young people are not living

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<sup>1</sup> Forthcoming IF research which looks at young adults’ expenditure patterns.

<sup>2</sup> Taylor. et. al. (2017) *Good work: The Taylor Review of Modern Working Practises* London: Department for Business, Energy and Industrial Strategy

with their parents,<sup>3</sup> which means that they are likely to face similar living costs to anyone who is over the age of 25, while in 2016 almost 17% of children were born to mothers under the age of 25, so there is a strong likelihood that a significant proportion of these workers will also be supporting families of their own.<sup>4</sup>

Secondly, it is discriminatory for younger workers to be paid less for doing the same work than someone who is a few years older than them. Under the present system, a 17 year-old can be doing exactly the same work as a 28-year-old and still be paid less money. If an 18 year-old has a 40 hour per week full-time job where they are paid at the 18–20 NMW rate, they could earn over £4,200 per year less than someone who was earning the full NLW rate for doing the same job or one that was very similar. Research has suggested that employers themselves do not believe it is fair to pay workers differently on the basis of how old they are: according to a survey of 4,000 HR managers which was commissioned by The Young Women’s Trust, 79% of employers think there should be equal pay for two workers who are doing the same job regardless of their ages, with 77% of employers which represent small and medium-sized organisations agreeing with this viewpoint. Although one of the rationales for the current system is that younger workers tend to be less productive than older ones because they have fewer skills, findings from the same survey suggest that 80% of employers also thought that younger workers make either the same or a larger contribution within their workplace as older workers, which suggests they may not actually be less productive.<sup>5</sup> Indeed, there is some evidence that raising the minimum wage levels of young workers may actually increase their productivity, possibly because it increases their levels of motivation.<sup>6</sup> Clearly, this is a question where there is a need for further research.

Thirdly, one of the arguments which is often used to justify the current design of the age-related NMW/NLW rates is that they are relatively generous in relation to the average earnings of young workers as a whole (i.e. under the current system the “bite” of the age-related NMW is still quite favourable towards young workers, and the bite would be very high if workers in the younger age groups had to be paid the full NLW). The LPC’s own data suggest that, whilst it is the current government’s policy to try and increase the bite of the NLW towards 60%, the current NMW levels are already above this for the younger age categories (in 2014, the age-related rates represented a bite of 72% for 16-17 year-olds and 76% for 18-20 year olds).<sup>7</sup>

However, while these data have been used to argue that the current age-related NMW rates are already sufficiently generous, young workers’ recent strong performance in the labour market could just as easily be used to argue that a significantly higher minimum wage (in terms of its bite) is actually sustainable than has previously been attempted without creating job losses.

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<sup>3</sup> Hansard (Commons) [3<sup>rd</sup> May 2018](#), column 511

<sup>4</sup> ONS (2019) *Birth characteristics in England and Wales: 2017* Newport: ONS

<sup>5</sup> Young Women’s Trust (2018) *Paid Less, Worth Less* London: Young Women’s Trust

<sup>6</sup> Barker, K. and Tinson, A. (2017) *Young adults and the minimum wage: the case for lowering age eligibility* London: New Policy Institute

<sup>7</sup> Low Pay Commission (2015) *The minimum wage for younger workers - why is the level different?* London: Low Pay Commission

It could also be argued that the bite is an imperfect tool for measuring the effectiveness of a given minimum wage level as it takes no account of either young workers' needs or the current level of youth unemployment, or the profitability of employers. Moreover, as the bite is usually calculated in relation to average wages across the entire economy, the real bite level is different for every single population subgroup, not just for younger workers; to take an obvious example, as the NMW/NLW rates are set at UK-wide level, the bite works out being more generous in regions of the country where average wages are lower, and less generous in regions where average wages are higher. This observation is related to the broader point that many population subgroups have levels of employment which are worse than the average (e.g. older people, people with disabilities), yet suggesting that they should be paid a lower NMW rate would be regarded as discriminatory. It has been argued that the current low level of youth unemployment, the fact that wages are rising among younger workers and the fact that previous increases in the youth rates of the NMW have not resulted in higher youth unemployment would appear to suggest that the labour market would bear a higher NMW rate for younger workers without pricing them out of jobs.<sup>8</sup>

Fourthly, it is also worth pointing out that the complexity of the UK's NMW/NLW system is relatively unusual among other advanced countries. Obviously, not all advanced economies have statutory minimum wage levels, but amongst the ones that do, Belgium and Germany have both abolished their separate age-related minimum wages over recent years; France and the Republic of Ireland both have minimum wage regimes where wage levels are related to a worker's level of experience rather than simply her age (for example, French workers who are aged over 17 can be paid 90% of the full minimum wage as long as they have less than 6 months relevant work experience, but if they possess more experience than that they must receive the full minimum wage rate). Many other European countries which do have age-differentiated minimum wages have much smaller gaps between what you can pay 17 year-olds and the full minimum wage (such as Ireland, where workers under 18 are entitled to 70% of the statutory minimum wage, whereas in the UK the hourly 16–17 rate is less than 54% of the NLW and under 57% of the 21–24 hourly rate).<sup>9</sup> Additionally, the UK is unusual compared with other European countries with age-differentiated minimum wage rates in that it sets the threshold for eligibility for the highest rate at the age of 25; with the exception of Greece, most other European countries set the highest rate at either 18 or 21 years old (as used to the case in the UK until the introduction of the NLW).

Clearly, not all countries which have a statutory minimum wage agree that setting a lower rate for younger workers is a worthwhile trade-off in return for preventing youth unemployment, and even among the ones which do employ a similar system to the UK one there are disagreements about how it should be designed and implemented.

## **2. Increase the Apprentice Rate**

IF strongly believes that the current NMW rate which applies to apprentices who are under 19 in the first year of an apprenticeship (£3.90 per hour) is too low to enable them to enjoy a decent standard of living. As the LPC is likely to be well-aware, the number of people enrolling as new apprentices has fallen significantly in the last two

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<sup>8</sup> UNISON (2018) *UNISON evidence to the Low Pay Commission on minimum wage rates for 2019* London: UNISON

<sup>9</sup> Eurofound (2017) *Statutory minimum wages in the EU* Dublin: Eurofound

years, which critics have put down partly to the lack of a financial incentive for young people to enrol on them.

There is research which suggests that at this level of pay, many apprentices struggle to afford the basic costs which are incurred as a result of actually doing an apprenticeship in the first place, such as travelling to their workplace.<sup>10</sup> This demonstrates that, although the LPC needs to set the Apprentice Rate at a sufficiently low level to incentivise employers to take on apprentices, it would be counterproductive if it actually discourages young adults from doing apprenticeships because they can get a job which pays the NMW or NLW instead. Given that employers who take on apprentices who under the age of 25 are already exempted from paying employers' Class 1 National Insurance contributions (and also receive government subsidy for the job-related training and assessment aspects of an apprenticeship), they are already being subsidised to an extent, which is a further reason why there may be a case for a more generous Apprentice Rate.

Another argument in favour of having a higher Apprentice Rate is that it would discourage employers from providing low-quality apprenticeships which don't offer useful training or personal development for the apprentices involved in order to take advantage of the lower NMW level and National Insurance contributions subsidy. There are data to suggest that, although apprentices should be spending one-fifth of their time receiving off-the-job training, when interviewed up to 20% of apprentices have said they have never received such training.<sup>11</sup> There is evidence to suggest that some employers have responded to the launch of the government's Apprenticeship Levy by re-badging existing low-skilled jobs as apprenticeships for this reason, when such jobs might otherwise have been done by employees who would be being paid at the relevant NMW/NLW rate for their age group.<sup>12</sup> Additionally, the evidence from last year's LPC report showed that in total, 83% of apprentices who would be eligible for the Apprentice Rate were actually being paid above it,<sup>13</sup> which suggests that the majority of employers recognise that the current Apprentice Rate is too low to attract good-quality apprentices, and may imply that the market could bear it if the Apprentice Rate was increased.

### **3. Crackdown on non-compliance and underpayments affecting younger workers**

IF also strongly believes that there should be more vigorous enforcement of the NMW/NLW rates, as the LPC's own data suggest that younger workers are especially at risk of being underpaid for the work which they've performed.<sup>14</sup> Other research has also suggested that 20% of workers aged 18 to 30 may have done work for which they've been paid less than the relevant age-related rate of the NMW/NLW.<sup>15</sup> The LPC should call for more resources to be allocated towards enforcement of the NMW/NLW rates to prevent the exploitation of young people in the workplace.

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<sup>10</sup> National Union of Students (2015) *Forget Me Not* London: NUS

<sup>11</sup> National Union of Students (2015) *Low Pay Commission Consultation on the National Minimum Wage* London: NUS

<sup>12</sup> Richmond, T. (2018) *The Great Training Robbery: Assessing the First Year of the Apprenticeship Levy* London: Reform

<sup>13</sup> Low Pay Commission (2018) *National Minimum Wage: Low Pay Commission Report* London: LPC

<sup>14</sup> Low Pay Commission (2019) *Non-compliance and enforcement of the National Minimum Wage* London: LPC

<sup>15</sup> Young Women's Trust (2018) *One in five young workers illegally underpaid, as charity calls for crackdown* London: Young Women's Trust

## **Conclusion**

The major challenge facing UK social policy has changed from combatting unemployment to addressing in-work poverty, and so there is a strong argument for pushing the NMW/NLW rates as high as it seems reasonable for the market to bear, whilst also extending the NLW to cover all workers, regardless of their age. Given the large number of young adults who are struggling with high housing costs and other economic pressures, the proposals which we have suggested would be one of the most effective levers at policy-makers' disposal for improving their living standards further.

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

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