Consultation Response:
"April 2021 National Minimum Wage Rates"

To: The 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) and National Living Wage (NLW) rates that will apply from April 2021. We welcome the LPC's plans to lower the eligibility threshold for the NLW to 21 by 2024 and raise the NLW target so that it reflects two-thirds of median earnings. IF is keen to ensure that the interests of young people continue to be upheld according to this plan, despite the anticipated risks associated with the looming recession.

Specifically, IF would like to put forward the following proposals to the LPC:

1. **Lowering the age threshold for NLW eligibility will be an important lifeline for young people**

We understand that decisions on lowering the threshold for the NLW need to strike a delicate balance between ensuring that young people have adequate incomes to support themselves through employment and protecting their employment prospects. The need to get this balance right is especially important in the context of the coronavirus outbreak, which has thrown young people in particular into a state of financial uncertainty. Early reports into the economic impact of COVID-19 suggest that under-25s are most likely to be working in sectors that have shut down during the national lockdown.[1] A recent report by the Centre for Economic Performance at the LSE has also revealed

[1] Joyce, R. and Xu, X. (2020) *Sector shutdowns during the coronavirus crisis: which workers are most exposed* London: Institute for Fiscal Studies.

concerns that this age group are at risk of facing declining social mobility and long-term spells of employment because of the rising economic inequalities.[2]

Although evidence does suggest that young people are at a higher risk of being priced out of jobs during a recession (although not under normal circumstances),[3] IF believes there is a strong case for continuing with the planned reforms.

Firstly, NMW/NLW rates need to reflect the socioeconomic pressures that young people face. Lower NMW rates for young people are sometimes justified based on the assumption that young people have a lower financial need as many still live with their parents. However, evidence suggests that young people are burdened to a greater extent than any other age group by the cost of living, specifically due to high housing costs. In 2019 almost 3 million young people between the ages of 16 and 25 were not living with their parents,[4] while in 2018 almost 17% of children were born to mothers under the age of 25, which suggests that a significant proportion of these young workers will be living in the private rented sector as well as supporting families of their own.[5] Being paid a lower salary whilst facing the same living costs as older workers is a key driver behind why most of the money that young people spend is dedicated to paying for their essentials. IF recently conducted research into the spending patterns of different age groups and found that 63% of all the money spent in a typical week by households in the under-35 age group goes on essentials (£203 per week). This was the largest proportion found among any age group.[6]

Secondly, as young people's earnings are particularly vulnerable to change due to the pandemic, the NLW reforms will serve as an important lifeline for the under-25s. The Taylor review of modern working practices recognised the NLW as a "powerful tool to raise the financial baseline of low paid workers"[7] Although we do not have full knowledge of future NLW/NMW rates to be able to estimate the benefits of the proposed changes over the next years, under the current rates, extending the NLW to 21 to 23 year-olds would mean that a young person is £1082 better off than they would be otherwise per year.

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[2] Major, L. E. and Machin, S. (2020) *Covid-19 and social mobility (No. cepcovid-19-004)* London: Centre for Economic Performance, LSE.

[3] Croucher, R. and White, G. (2011) *The impact of minimum wages on the youth labour market: an international literature review for the Low Pay Commission* London: Low Pay Commission.

[4] ONS (2019) *Young adults living with their parents* Newport: ONS

[5] ONS (2019) *Births by parents' characteristics* Newport: ONS

[6] Kingman, D. (2019) *All Consuming Pressure: The cost-of-living crisis facing younger generations* London: IF

[7] Taylor, M., Marsh, G. and Nicol, D. (2017) *Good work: The Taylor Review of Modern Working Practices* London: Department for Business, Energy and Industrial Strategy

In addition, higher minimum wage rates for young people can also have long-term benefits. First jobs are important and can impact the economic pathway that an individual takes over the course of their life. Although it is expected that a young person's earnings will increase as they gain more experience, age differential NMW rates artificially lower their starting point. Research has shown that being in this weak bargaining position reduces an individual's capacity to make demands such as wage progression and it increases the likelihood that one will accept low-paid positions in the future.[8] The proposed reforms to the NLW can help to partly mitigate the impacts of COVID-19 on the bargaining position of young people.

Thirdly, the argument that we should avoid increasing the risk of job losses for young people is often accompanied by the claim that NMW/NLW rates for the under-25s are already relatively generous in relation to the average earnings of young workers as a whole. The LPC's own data suggest that the current "bite" of the NMW – meaning the ratio of the NMW relative to the median earnings of that age group – is already higher than the bite of the new NLW target, which aims to set wage floors at two-thirds of median earnings. For instance, in 2014, the age-related rates represented a bite of 72% for 16-17 year-olds and 76% for 18-20 year-olds).[9]

It could be argued that the bite is an imperfect tool for measuring the effectiveness of a given minimum wage level for a number of reasons. For instance, the measure reflects the ratio of the minimum wage relative to median earnings, which is not necessarily the value of a worker's productivity. If young people are underpaid for their labour, then the bite would be a misleading measure of effectiveness because it is not capturing what young people should be earning, but is what their employers have decided to pay them. This could be the case if employers use minimum wages as a reference point for the salaries that they pay to employees. Furthermore, the bite takes no account of young workers' needs, or the current level of youth unemployment, or the profitability of employers, or the median earnings, or cost of living within the region that the young person is living in.

We can also address this question from a moral perspective. As a result of age-differential NMW rates, it is possible for a 21 year-old to receive lower pay for doing the exact same work as their 26 year-old colleague. It is discriminatory for younger workers to be paid less for doing the same work as someone who is a few years older than them. Many might argue that this is justified because young people are thought to be less productive than older workers because of their lack of experience. However, the available research on whether young people are indeed less productive does not provide a straightforward

[8] McKnight, A., Stewart, K., Himmelweit, S. M. and Palillo, M. (2016) *Low pay and in-work poverty: preventative measures and preventative approaches* Brussels: European Commission.

[9] Low Pay Commission (2015) *The minimum wage for younger workers - why is the level different?* London: Low Pay Commission

conclusion. A survey of 4,000 HR managers commissioned by the Young Women's Trust found that 79% of employers support equal pay for workers regardless of age,[10] whilst other research has suggested that employers respect the fresh perspective of young workers and their flexibility.[11]

There is also evidence to suggest that introducing the minimum wage can improve young people's productivity, because lower wages have the potential to reinforce the productivity gaps between younger and older workers.[12] Being paid less than their higher-paid co-workers may demotivate younger workers from working to their full potential.[13] Through this argument, we can see how this form of age discrimination can have economic consequences through losses in productivity.

Nevertheless, IF understands that during a recession, there is a real risk that young people may lose their jobs following increases in NMW rates.[14] The employers who do perceive young workers to be less productive than older ones may choose to dismiss workers rather than accept lower profits. One could argue that it is better to be employed in a lower-paid job than not employed at all.

In this case, we would like to remind the LCP that the minimum wage does not need to be a stand-alone solution. Researchers from the Centre for Economic Performance have called for "bold new policies" to be implemented in the post-COVID-19 context to mitigate the economic impacts of the pandemic on young people.[15] Increases in the minimum wage can be complemented using other social security policies and programmes to provide safety nets and relevant training for young people without stepping back from our promises to increase their wages.

If we look to other advanced countries that have statutory minimum wage levels, the nature of the UK's NMW/NLW system is relatively unusual in comparison. For example, Belgium and Germany have both abolished their separate age-related minimum wages over recent years; France has a

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[10] Young Women's Trust (2018) *Paid Less, Worth Less* London: Young Women's Trust

[11] Chartered Institute of Personnel and Development (2012) *Resourcing and Talent Planning: Survey Report* London: CIPD

[12] New Policy Institute (2017) *Young adults and the minimum wage: The case for lowering age eligibility* London: NPI

[13] Dickerson, A. and McIntosh, S. (2011) *An Investigation Into The Relationship Between Productivity, Earnings And Age In The Early Years Of A Working Life* Sheffield: University of Sheffield

[14] Dolton and Bondibene (2011) *An Evaluation Of The International Experience Of Minimum Wages In An Economic Downturn* London: Low Pay Commission

[15] Major, L. E. and Machin, S. (2020) *Covid-19 and social mobility (No. cepcovid-19-004)* London: Centre for Economic Performance, LSE

minimum wage regime where wage levels are related to a worker's level of experience rather than simply their age. 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 be the case in the UK until the introduction of the NLW).

It is worth pointing out that all of the aforementioned countries have incorporated additional mechanisms to complement their minimum wage policies with the aim of preventing rising levels of youth unemployment in mind. Common practices include wage and hiring subsidies and training programmes targeted at youth; for instance, France has a long history of hiring and wage subsidies that date back to 1977.[16]

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 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.[17] For under-18s in London, the cost of travel will worsen as they are no longer entitled to free travel on TfL, a measure which has been introduced to keep services operating.[18] As such, 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 are 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

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[16] Bördős, K., Csillag, M. and Scharl, A. (2015) *What works in wage subsidies for young people: A review of issues, theory, policies and evidence* (No. 994898973402676) Geneva: International Labour Organization.

[17] National Union of Students (2015) *Forget Me Not* London: NUS

[18] BBC (2020) *Coronavirus: London mayor says continue children's free trave*l London: BBC

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.[19] 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.[20] 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,[21] 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.[22] 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.[23] The LPC should call for more resources to be allocated to enforcement of the NMW/NLW rates to prevent the exploitation of young people in the workplace.

Conclusion

The Covid-19 crisis is likely to significantly undermine the living standards of young adults, which still hadn't fully recovered from the post-2008 Great Recession. Given the large number of young adults who are struggling with high housing costs and other economic pressures, the proposals which we have suggested should help to ensure that they are protected from suffering further economic harm during what is likely to be a very uncertain period for the UK economy, without increasing unemployment among this age group.

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[19] National Union of Students (2015) *Low Pay Commission Consultation on the National Minimum Wage* London: NUS

[20] Richmond, T. (2018) *The Great Training Robbery: Assessing the First Year of the Apprenticeship Levy* London: Reform

[21] Low Pay Commission (2018) *National Minimum Wage: Low Pay Commission Report* London: LPC

[22] Low Pay Commission (2019) *Non-compliance and enforcement of the National Minimum Wage* London: LPC

[23] Young Women's Trust (2018) *One in five young workers illegally underpaid, as charity calls for crackdown* London: Young Women's Trust

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