intergenerational foundation
Fairness for Future Generations

Consultation Response:
"April 2022 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's (LPC) consultation on the setting of the National Minimum Wage (NMW) and National Living Wage (NLW) rates that will apply from April 2022.

We welcome the LPC's decision to continue with plans to increase the NMW and the NLW and the lowering of the age eligibility to 21 by 2024. We also understand the difficult situation that NLW campaigners are facing when advocating for planned increases given the financial pressure that businesses are under, which was a key reason behind why the April 2021 increase in the NLW was lower than previously planned.

Nonetheless, given the disproportionate impact that the pandemic has had on the employment circumstances and prospects of young people, we would like to offer evidence on why policymakers should continue to uphold the interests of young people in 2022 and beyond. IF welcomes the recent lowering of the age eligibility for the NLW to 23 and, for reasons outlined below, believes it is important to continue to lower the age eligibility for the NLW (or remove it completely) and, in the meantime, continue to increase NMW rates for workers aged under 23 and for apprentices.

1. Moving towards a single NLW for all age groups

IF has long considered age-specific minimum wage rates to be discriminatory towards younger workers, for whom it is possible to be paid less for doing the same work as an older colleague. The system in the UK is somewhat of an anomaly among systems across Europe. For instance, age-related minimum

wages are abolished in Belgium, while most other European countries set the highest rate at either 18 or 21 years-old.[1]

Furthermore, age-specific NLW/NMW rates fail to reflect the millions of young people who face similar or greater socioeconomic pressures than their older counterparts. This is concerning given that the aim of the NLW is to ensure that workers are able to afford a normal standard of living using their earnings. In 2020, 2.1 million young people between the ages of 16 and 25 were not living with their parents,[2] while in 2019, 16% of children were born to mothers under the age of 25,[3] suggesting that a significant proportion of young workers are renting housing in the private sector as well as supporting families of their own. Being paid a lower salary, whilst facing similar living costs to older workers, is likely to be a key driver behind why most of the money that young people spend is dedicated to paying for their essentials. IF has previously 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), which reflects a 10% increase compared to the early 2000s.[4] Circumstances have worsened during the COVID–19 crisis, with young people bearing the brunt of the economic cost. The LPC's own research has demonstrated that young people are more likely to experience a cut in pay, whereas older workers are more likely to benefit from having their pay topped up.[5]

Taking these factors into account, IF believes we should not be awarding different levels of protection to workers based on age, particularly when it disadvantages the very workers who need it the most. While we welcome the plan to lower the age threshold for the NLW to 21 by 2024, we believe that the LPC could go further by aiming to remove age criteria from NLW rates completely. Research has suggested that the majority of employers would support a single national living wage for all workers. 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,[6] whilst other research has suggested that employers respect the fresh perspective of young workers and their flexibility.[7]

2. Complementary policies can offer a fairer solution to youth unemployment

[1] Low Pay Commission (2019) *A Review of the Youth Rates of the National Minimum Wage* London: LPC
[2] ONS (2021) *Young adults living with their parents* Newport: ONS
[3] ONS (2020) *Births by parents' characteristics* Newport: ONS
[4] Kingman, D. (2019) *All Consuming Pressure: The cost-of-living crisis facing younger generations* London: IF
[5] Low Pay Commission (2020) *Low Pay Commission 2020 Report launch event* London: LPC
[6] Young Women's Trust (2018) *Paid Less, Worth Less* London: Young Women's Trust
[7] Chartered Institute of Personnel and Development (2012) *Resourcing and Talent Planning: Survey Report* London: CIPD

Nevertheless, IF understands that, particularly during a recession, there is a need to strike a delicate balance between ensuring that young people have adequate incomes to support themselves and protecting their employment prospects. There is a real risk that young people may lose their jobs if youth NMW rates increase too dramatically.[8]

It is worth pointing out that there are other ways in which we can protect against the pricing out of young workers without offering unequal, age-based protection. In other European countries, minimum wage rates are usually paired with additional mechanisms which act to prevent rising levels of youth employment. 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.[9] IF encourages the LPC to continue to investigate alternative pathways towards protecting youth employment that do not offer unjustly lower levels of wage protection to younger generations.

3. The Apprentice Rate is too low to ensure a decent standard of living

IF strongly believes that the current NMW rate, which applies to apprentices who are under 19 years of age or in their first year of an apprenticeship (£4.30 per hour), is too low to enable them to enjoy a decent standard of living. 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. The number of people enrolled in an apprenticeship in England dropped by 23,400 between 2018–19 to 2019–20.[10]

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.[11] 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. Another argument in favour of having a higher Apprentice Rate is that it would discourage employers from providing low-quality apprenticeships which do not offer useful training or personal development for the apprentices involved in order to take advantage of the lower NMW level and National Insurance contribution's subsidy. There is 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

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

[9] 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.

[10] Powell, A. and Foley, N. (2021) *Apprenticeship statistics for England* London: House of Commons Library

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

never received such training.[12] Furthermore, a survey of 12,872 people in further education courses and apprenticeships found that, of the respondents who did not complete their apprenticeship, 14% left for employment or other training and 11% quoted poor running as the main reason for dropping out.[13]

In addition, 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, when such jobs might otherwise have been done by employees who would be paid at the relevant NMW/NLW rate for their age group.[14] These reasons, alongside the knowledge 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), support a case for a more generous Apprentice Rate.

4. 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, given that the LPC's review of survey findings has demonstrated a high incidence of underpayment amongst apprenticeship contracts, with as many as one in three apprentices reporting underpayment.[15] Other research has also suggested that 20% of workers aged 18 to 30 may have done work for which they have been paid less than the relevant age-related rate of the NMW/NLW.[16] The LPC should call for more resources to be allocated to prevent the exploitation of young people in the workplace.

Conclusion

Many young people are facing the same financial needs and contributing equally to their workplace as their older counterparts. Continuing to lower the age eligibility for the NLW will provide intergenerational fairness as well as an important lifeline for younger generations who will continue to bear the brunt of the economic cost of the COVID–19 crisis for years to come, in addition to the socioeconomic pressures they were already facing. This consultation response highlights the evidence showing how awarding equal protection to all workers, regardless of age, is feasible without lowering the employment prospects for young people. It also emphasises the need to revise the

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[12] National Union of Students (2015) *Low Pay Commission Consultation on the National Minimum Wage* London: NUS
[13] Kantar Public (2019) *DfE Learners and Apprentices Study: Reasons for noncompletion* London: Department for Education
[14] Richmond, T. (2018) *The Great Training Robbery: Assessing the First Year of the Apprenticeship Levy* London: Reform
[15] Low Pay Commission (2020) *Non-compliance and enforcement of the National Minimum Wage* London: LPC
[16] Young Women's Trust (2018) *One in five young workers illegally underpaid, as charity calls for crackdown* London: Young Women's Trust

Apprentice Rate, which continues to be set at a level well below what can be used to afford a decent standard of living.

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

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