

# Consultation response: Low Pay Commission consultation 2023

**To:** Low Pay Commission

**By:** The Intergenerational Foundation

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The Intergenerational Foundation ([www.if.org.uk](http://www.if.org.uk)) is an independent think tank researching fairness between generations. IF's guiding principle is that policy should be fair to all – the old, the young and those to come.

## Introduction

The Intergenerational Foundation (IF) is grateful for the opportunity to respond to the Low Pay Commission's (LPC) consultation on National Minimum Wage (NMW) rates and National Living Wage (NLW) rates that will apply from April 2024. IF is supportive of the Low Pay Commission plans to increase the NMW and NLW rates and to lower the age threshold for the NLW rate by 2024. However, IF believes that the LPC should go further in its recommendations and aim to remove age-related criteria for NLW rates completely since younger and poorer people are most likely to experience financial pressure due to inflation.

IF understands that it is vital for the LPC to take the economic context into account when advocating for planned increases to NMW/NLW rates, particularly during a time of high inflation, interest rates and supply chain shortages. However, given that the inflation currently experienced in the UK economy is largely driven by external factors such as supply chain issues, energy import prices, and climatic events such as increased droughts affecting crops, rather than by inflation due to wage pressures, IF believes that it is vital for the LPC to continue to advocate for NMW/NLW increases in line with inflation, at a minimum.

Real wages are falling at record-breaking levels, and young people are especially prone to suffer as a result. Young people have few assets, often live in unaffordable private rental accommodation, and pay a larger share of income on essentials than any other age group. For reasons outlined in the responses below, IF believes that the best way to build a healthy and growing economy is to increase NMW/NLW rates for 2024 in line with current levels of inflation, and to move towards abolishing age criteria for NLW rates.

**Question 5 (At what level should the NLW be set from April 2024? Our current central projection for the on-course rate is £11.16 within a range of £10.90 and £11.43.)**

Given the economic context of rising living costs, and particularly how the prices of rent, bills and food are increasing much faster than the general rate of inflation, IF believes that it is vital to raise 2024 NMW/NLW rates in line with inflation. Real wages have been falling at record levels, which puts those on the lowest wages, particularly young people, in an increasingly precarious position. Since the increase in prices of essential items is much higher than that of general inflation, minimum-wage increases in line with inflation would not be able to completely counteract falling living standards for the lowest paid. However, IF recognises that advocating for minimum-wage rate increases above inflation is difficult due to the economic context, whereas increases in line with inflation could be considered a neutral and sensible policy which would help millions of struggling workers, many of which are young people.

An increase of the NLW in line with the latest measure of inflation using the Consumer Price Index (CPI), at 10.1% as of March 2023 would imply a NLW rate of £11.47, which is slightly higher than LPC's upper range of £11.43 and significantly higher than the central estimate of £11.16. Since the costs of essentials such as rent, bills and food items has increased faster than the general level of inflation, setting the NLW rate at the upper estimate, or close to it, is necessary. Due to the cost-of-living crisis, this would nonetheless lead to a fall in living standards for those receiving NLW rates. However, the fall in living standards would be much more severe if the NLW rates did not rise in line with inflation, or very close to it. The central estimate of £11.16 would only imply an increase of 7.1%, which would amount to a real wage pay cut of 3%.

During a cost-of-living crisis, IF believes that it is necessary to protect those on the lowest incomes from real wage cuts, which necessitates an increase of the NLW rate in line with inflation. Many of those receiving NLW rates are young people who, well before the cost-of-living crisis, were struggling with unaffordable rents, difficulties in building up savings, and having to spend a disproportionately large amount of expenditure on essentials. The best way to ensure a decent standard of living for all, regardless of age, is to uprate minimum-wage rates in line with inflation.

**Question 13 (How has the rising cost of living affected workers on or close to the NMW and NLW and how, if at all, has this affected worker needs and expectations from their employment and pay?)**

The rising cost of living disproportionately affects workers on or close to NMW/NLW rates since they are most likely to be workers who face: insecure contracts; have few

opportunities for promotion or salary increases; are unlikely to have, or been able to build up, savings. They are also more likely to live in unaffordable privately rented accommodation. Furthermore, inflationary pressure has been the highest for essential goods and services, as the price of rent, energy, and food items has been much higher than the general level of inflation across the economy.

Many workers on NMW/NLW rates are young people, who well before the cost-of-living crisis, spent a larger proportion of expenditure on essential spending than any other age group.<sup>1</sup> IF research has shown that young people also suffer from the inability to save: only a fraction of young people own property; one-third of those aged below 35 have negative financial wealth; and less than two-thirds of young people have enough savings to cover a three-month 25% loss in income.<sup>2</sup> Young people, especially the large proportion of young workers on or close to NMW/NLW rates, have had to face immense financial pressure due to the cost-of-living crisis.

Previous generations did not face the same high financial pressures as young people do today. Previous generations could expect higher levels of job security, annual pay increases above inflation, generous pension benefits and the availability of genuinely affordable social housing. IF considers it an intergenerational unfairness that young people today cannot expect to receive the same level of compensation from employment as previous generations enjoyed. However, IF strongly believes that wages for workers across the economy, independent of whether old or young, should be high enough so that a decent standard of living for all can be guaranteed. Setting NMW/NLW rates at the appropriate level to ensure that this goal is achieved should be an important role for policymakers.

#### **Question 14 (What has been the effect of changes in the minimum wages for young people on their employment prospects?)**

Lower minimum wage rates for young people relative to their older counterparts can have both short-term and long-term negative effects for young people. While earnings tend to rise over time in line with length of service, experience and knowledge, lower first-job earnings delay the future economic prospects of an individual. Lower rates of the NMW also discriminate against younger people based solely on their age. Not only might they be in the

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<sup>1</sup> Kingman, D. (2019) *All Consuming Pressures: The cost-of-living crisis facing younger generations*. London: The Intergenerational Foundation <https://www.if.org.uk/research-posts/all-consuming-pressures-the-cost-of-living-crisis-facing-younger-generations/>

<sup>2</sup> Haglund, A. (2022) *The savings squeeze: Young people locked out from the benefits of saving*. London: The Intergenerational Foundation <https://www.if.org.uk/research-posts/the-savings-squeeze-young-people-locked-out-from-the-benefits-of-saving/>

disadvantageous position of earning less than their older counterparts for doing the same job, but it can also decrease their opportunities for gaining promotion.

Furthermore, research has shown that beginning a career in a weak bargaining position of being discriminated against based upon age can reduce an individual's capacity to bargain for better wages or career progressions in the future, thereby harming their economic prospects over the course of their lifetime and increasing the likelihood of the individual staying on in low-wage jobs.<sup>3</sup> It is therefore intergenerationally unjust to discriminate against young people based solely upon their age. The UK should learn from other European countries, the vast majority of which do not have age-related criteria for NLW rates.

**Question 18 (To meet the Government's 2024 target the NLW age threshold would be lowered to 21 in 2024. What impacts do you think this would have, including on employment?)**

IF is supportive of the plan to lower the NLW age threshold to 21 in 2024 but would like to see the LPC advocate for completely removing age-related criteria for the NLW rate, as outlined in our response to Question 24.

IF believes that lowering the NLW age threshold will be an important lifeline for young people. Lower minimum-wage rates for young people are sometimes justified based on the assumption that young people live with their parents or are in part-time education, but 40% of those aged between 20 and 22 are living on their own and are therefore likely to face high, and rapidly increasing, housing costs associated with the private rental market.<sup>4</sup> Although it is true that younger people are at a higher risk of unemployment in times of recession,<sup>5</sup> particularly as they are likely to have less work experience, IF nonetheless believes that lowering the age threshold will benefit younger people irrespective of whether the UK economy enters a recession in the coming years or not. In fact, the resulting additional spending power may contribute to economic growth since the marginal propensity to spend is highest for those on low wages. Therefore, IF strongly believes that the Government should maintain the target of lowering the NLW age threshold to 21, and work towards a plan for completely removing age criteria for the NLW rate.

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<sup>3</sup> McKnight, A., Stewart, K., Himmelweit, S. M., Palillo, M. (2016) *Low pay and in-work poverty: preventative measures and preventative approaches*. Brussels: European Commission

<sup>4</sup> Office for National Statistics (2022) *Young adults living with their parents*

<sup>5</sup> Croucher, R., 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

### **Question 19 (At what level should these rates be set from April 2024?)**

Although IF would like to see the LPC advocate for the complete removal of age criteria for receiving the NLW rate, in the meantime the 21-22 year-old rate and the 18-20 year-old rate should at the very least be updated in line with inflation. The apprenticeship rate also needs to be updated higher than the level of inflation as it is currently only about half the NLW rate, and far from enough to be able to live on. IF strongly believes that the apprenticeship rate must be updated to a level that is much closer to the NLW, since the low apprenticeship rate renders it impossible to pay for the basic costs of undertaking an apprenticeship in the first place.<sup>6</sup> The number of people undertaking apprenticeships has been falling, and a sensible policy to reverse this trend would be to increase the apprenticeship rate to a level that is enough to pay for basic living costs but still slightly lower than the NLW rate in order to encourage employers to take on apprentices with the help of government support.

### **Question 24 (The levels and existence of different age-related minimum wages)**

IF has long advocated for abolishing the age-related criteria of the NLW rate, as they are discriminatory towards younger workers. IF believes that it is unjust that someone can be paid less for doing the same work by allowing for discrimination based on age. Furthermore, the existence of different age-related minimum wages is somewhat unique to the UK, as most European countries do not have age-related minimum wages.

In addition to the discriminatory nature of age-related minimum wage criteria, such criteria also fail to recognise that millions of younger people face similar, if not greater, financial, and socioeconomic pressures than their older counterparts. The purpose of setting NLW rates is to ensure that workers are paid fairly and can have a decent standard of living, and young workers below the age of 23 ought to be granted the same right to a decent standard of living as older workers.

The under-35 age group are already forced to spend a larger proportion of expenditure on essential spending than any other age group, accounting for 62% of their spending in 2018, before the worst of the cost-of-living crisis began.<sup>7</sup> A significant proportion of young workers aged below 23 are renting in the private sector and must support their living costs through earnings, rendered much more difficult due to discriminatory minimum-wage rates based on age. For example, approximately 40% of those aged between 20 and 22 do not live with their parents.<sup>8</sup> The proportion of young people aged 20-34 who do live with their

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<sup>6</sup> National Union of Students (2015) *Forget Me Not*. London: NUS

<sup>7</sup> Simpson, L., Bui, M. (2021) *Left behind: A decade of intergenerational unfairness*. London: The Intergenerational Foundation <https://www.if.org.uk/research-posts/left-behind-a-decade-of-decline/>

<sup>8</sup> Office for National Statistics (2022) *Young adults living with their parents*

parents has increased from 20% in 2000 to 28% in 2021, showing the financial pressure young people are under and the struggle they face to move out and become independent.<sup>9</sup>

Based on the factors outlined above, IF is of the strong belief that we should not award different levels of minimum wage protection based on age, particularly as it results in discriminating against those who often need that pay protection the most. Although IF is supportive of the plan to reduce the NLW age threshold to 21 by 2024, IF would like to see the LPC go further and plan for abolishing age-related NLW thresholds completely. Research has also shown that 79% of employers surveyed would support equal pay for workers regardless of age differences.<sup>10</sup> However, IF understands that LPC and policymakers are wary of potential impacts on youth unemployment as a result of increasing NMW/NLW rates and removing discriminatory rates based on age. There is little evidence to suggest that there would be any significant increase in youth unemployment as a result of increasing NMW/NLW rates and removing age discriminations, and IF believes that it would be advisable to employ other policy mechanisms to safeguard against rising youth unemployment instead of wage discrimination based on age. IF would support the LPC investigating how subsidised training programmes and transport and wage subsidies in particular sectors could counteract any possible increases in youth unemployment that may arise as a result of removing age-based discrimination for minimum-wage rates.

**Question 40 (How has inflation and the cost of living factored into wage setting? What has been your experience of wage growth and inflation in the last year, and what are your views on forecasts for the next couple of years?)**

Inflation and the cost of living naturally play a role in wage setting, as workers require an annual increase in pay that is line with inflation in order to avoid experiencing a fall in their standard of living. Monetary policy by the Bank of England intended to curb inflation by suppressing wage growth is likely to increase financial pressure on young people and low-income workers further, as wage growth, at 5.9% as of February 2023, already lags far behind CPI inflation at 10.1%. Thus, rather than being caused by upwards wage pressure, the high level of inflation is caused by a mixture of supply shocks, high energy import prices, high levels of profit, and shocks to global food supply networks due to both geopolitical and environmental factors. Although inflation is likely to have reached its peak and will probably slowly fall to slightly lower levels, the cost-of-living crisis is likely to continue. This can be witnessed by continuously rising food and energy prices in combination with record profits

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<sup>9</sup> Office for National Statistics (2022) *Young adults living with their parents*

<sup>10</sup> Young Women's Trust (2018) *Paid Less, Worth Less*. London: Young Women's Trust

in those industries, suggesting that firms with market power can continue to increase prices, a so-called “sellers’ market”.<sup>11,12</sup>

In combination with the retreat of the welfare state from the young, the economic context is bleak in terms of the living standards for young people and low-income workers. The wave of industrial action over the past two years has shown that workers across the economy are feeling a squeeze on their real wages. Given the lack of truly affordable housing, the continuous retreat of the welfare state from the young, and the likelihood of the cost of essentials to keep rising, an increase in wages is the best way to ensure that living standards do not drastically fall over the coming years. For many young people who have little bargaining power and whose earnings are tied to NMW/NLW rates, raising the NMW/NLW rates in line with inflation is the best bulwark to guard the young and low-income workers from having to experience significant falls in their standard of living in the upcoming years.

## Conclusion

Young people face the same, if not greater, financial, and economic pressures as their older work colleagues, and should not be further disadvantaged by minimum-wage rates that discriminate based on age. IF is therefore supportive of the plan to lower the age threshold of the NLW rate, but IF believes it is necessary to go further. IF believes that policy should be fair to all, independent of age, and setting minimum-wage rates by discrimination based upon age is an intergenerational unfairness that ought to be rectified by removing age criteria for the NLW rate. Furthermore, young people and others on minimum-wage incomes are not to blame for the cost-of-living crisis but nonetheless the most negatively affected by it. Young people have also faced disruption to their studies and employment prospects due to COVID, while others on minimum-wage rates are the key workers the economy relied on through the pandemic, all of whom deserve to be protected from further real wage cuts by uprating NMW/NLW rates in line with inflation, or close to it, at around 10%. IF believes that these policies would protect the interests of younger people while supporting a healthier economy where everyone who works is entitled to a pay that can provide them with a decent standard of living, whether old or young.

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<sup>11</sup> Weber, I. M., Wasner, E. (2023) *Sellers’ Inflation, Profit and Conflict: Why can large firms hike prices in an emergency?* Economics Department Working Paper Series. Massachusetts: University of Massachusetts Amherst

<sup>12</sup> Unite (2023) *Unite Investigates: Profiteering across the economy – it’s systemic*. London: Unite the Union  
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*If you would like to learn more about the work of the Intergenerational Foundation or would like to organise a meeting to discuss the points we raise, please contact:*

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