Consultation response: Low Pay Commission consultation 2024

To: Low Pay Commission

By: The Intergenerational Foundation

Date: 04 June 2024

The Intergenerational Foundation (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 2025. IF is supportive of the Low Pay Commission's plans to increase the NMW and NLW rates and is especially supportive of this year's lowering of the NLW threshold to 21 years of age. However, IF believes that the LPC should go further in its recommendations and aim to reduce the NLW rates threshold to 18 to combat the cost-of-living crisis which effects younger and poorer people the greatest.

IF believes now is an opportune time for the LPC to advocate for a NMW/NLW increase above inflation in order to begin to reverse years of record breaking falls in real wages. Inflation is easing and there has been real-wage growth for the first time since early 2022, yet real wages are still below pre-pandemic levels. A real terms increase of the NMW/NLW will begin to offset previous years of falling living standards as a result of real wages falling.

Young people have particularly suffered from falls in real wages as they 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 2025 above the current levels of inflation, and to make NLW rates applicable for all legal adults.

Question 5 – (At what level should the NLW be set from April 2025?)

The IF believes a real-terms increase on the 2025 NMW/NLW is needed to counteract falling living standards and begin to offset previous years of real wage decline and a continuing cost-of-living crisis. IF recommends an increase of the NLW in line with the LPC's medium estimate of £11.89 which would be a 3.9% increase and a 0.9% increase in real terms. Despite an easing of economy-wide inflation in recent months, the prices of essentials such as rent, bills and food remain historically high and it is those on the lowest wages that disproportionately face the brunt of this. In particular, young people are in an increasingly precarious position as a fall in real wages has compounded pre-existing issues of unaffordable rents, disproportionate expenditure on essentials and an inability to save. The best way to ensure a decent standard of living for all, regardless of age, is to uprate minimum-wage rates above, or at least in line with, inflation.

Question 7 – (How have changes in the 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 disproportionally 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.

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.[1] 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.[2] 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 intergenerationally unfair that young people today cannot expect to receive the same level of compensation from employment as previous generations enjoyed.

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[1] 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/

[2] 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/

14 – (How have recent changes in the minimum wages for young people affected their employment prospects?)

Reducing the NLW threshold to 21 will begin to negate the short and long-term negative effects previous age-discriminating criteria has imposed on young people. However, the NLW should be reduced further still to 18 to fully negate the effects a lower minimum wage has on young people's economic prospects.

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. 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 increasing the likelihood of the individual staying on in low-wage jobs.[3] IF welcomes the reduction of the threshold to 21, yet believes the UK should learn from other European countries, the vast majority of which do not have age-related criteria for NLW rates

15 – (The NLW age of eligibility came down from 23 to 21 on April 1 2024 – what has been the impact of this?)

IF welcomes the move to lower the NLW age threshold to 21 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 20.

IF believes that the newly lowered 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 therefore likely to face high, and rapidly increasing, housing costs associated with the private rental market.[4] The IF is highly pleased with the NLW threshold being lowered to 21 and strongly believes that the LPC should work towards lowering it to 18.

19 – (At what level should these rates be set from April 2025?)

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 18-20 year-old rate should at the very least by uprated in line with inflation, ideally above inflation. The apprenticeship rate also needs to be uprated higher than the level of inflation as it is currently just over half the NLW rate, and far from enough to be able to live on. IF strongly believes that the apprenticeship rate must be uprated to a level that is much closer to the NLW, since the low apprenticeship rate

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

[4] Office for National Statistics (2024) *Young adults living with their parents*

renders it impossible to pay for the basic costs of undertaking an apprenticeship in the first place.[5] The number of people undertaking apprenticeships has fallen dramatically in the last decade, and a sensible policy to reverse this trend would be to increase the apprenticeship rates in real-terms.[6]

20 – (Our advice to the Government on the future of the NMW recommended lowering the threshold for the NLW over time to 18 if the evidence allows. We welcome any comments on these recommendations.)

IF has long advocated for abolishing the age-related criteria of the NLW rate and welcomes the advice of the LPC to lower the NLW threshold to 18. IF believes that it is unjust that someone can be paid less for doing the exact same work by allowing for discrimination based on age.

Age-related criteria fails 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 21 ought to be granted the same right.

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.[7] A significant proportion of young workers aged below 21 are renting in the private sector and must support their living costs through earnings, rendered far more difficult due to discriminatory minimum-wage rates based on age. Approximately 32% of those aged between 18 and 21 do not live with their parents.[8] This figure may include students, yet students are equally in need of an increase in minimum wage. Recent reports have found that even on a maximum maintenance loan, on average students must work 19 hours a week just to maintain a minimum standard of living.[9] Housing costs effectively swallow up the average maintenance loan, meanwhile 20% of students have reported using foodbanks in the 2022/23 academic year.[10][11] The proportion of young people aged 20-34 who do live with their parents has increased from

[5] National Union of Students (2015) *Forget Me Not.* London: NUS
[6] Drayton, E et al. (2023). *Annual report on education spending in England: 2023*. London: Institute for Fiscal Studies
[7] 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/
[8] Office for National Statistics (2024) *Young adults living with their parents*
[9] Hill, K., Padley, M., Freeman J, *A Minimum Income Standard for Students*. Oxford: HEPI
[10] Higher Education Policy Institute, *Student accommodation costs across 10 cities in the UK,* Oxford: HEPI
[11] Save the Student**,** The National Student Money Survey 2023, London: STS

20% in 2000 to 28% in 2024, highlighting the financial pressure young people are under and the struggle they face to move out and become independent.[12]

Research has also shown that 79% of employers surveyed would support equal pay for workers regardless of age differences.[13] There is little evidence to suggest a lower NLW threshold would increase youth unemployment. Even then, the IF would advise policymakers to pursue other policy mechanisms to safeguard against rising youth unemployment as opposed to wage discrimination based on age. The LPC should investigate the subsiding of transport, wages and training programmes in particular sectors as means to protect against a rise in youth unemployment.

36 – (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 in line with inflation in order to avoid experiencing a fall in their standard of living. Despite an increase in real wages at the start of 2024, this is far from offsetting years of decline in real wages, with wages still below pre-pandemic levels. Rather than being caused by upwards wage pressure, the high levels of inflation are caused by a mixture of high levels of profit, high energy import prices and supply shocks due to both geopolitical and environmental factors. Although inflation has fallen, the cost-of-living crisis is likely to continue. This is evident in rising food and energy prices in combination with record profits in those industries, suggesting that firms with market power can continue to increase prices, a so-called “sellers’ market”.[14,15]

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 above inflation is the best policy to not only protect against a future fall in living standards but to begin to reverse the fall in living standards from previous years.

[12] Ibid.
[13] Young Women’s Trust (2018) *Paid Less, Worth Less*. London: Young Women’s Trust
[14] 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
[15] Unite (2023) *Unite Investigates: Profiteering across the economy – it’s systemic*. London: Unite the Union

Conclusion:

Young people face the same, if not greater, financial, and economic pressures as their older work colleagues, and on intergenerational fairness grounds, 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. Young people and others on minimum-wage incomes are not to blame for the cost-of-living crisis but nonetheless they are the most negatively affected by it. 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.

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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