

Low Pay Commission Consultation on the National Minimum Wage

**National Union of Students
response**

September 2015

Introduction

The National Union of Students (NUS) welcomes the opportunity to comment on the Low Pay Commission's (LPC's) annual report on the National Minimum Wage (NMW) and to offer our views on how the LPC should recommend NMW policy should change in the future.

NUS consists of over 600 students' unions in both the higher and further education sectors, and through them we represent around 7 million students across the United Kingdom. **In a recent survey, 68% of students reported having a weekly job. 31% of those in work reported being paid at the NMW for their age, whilst 3% reported being paid less than the NMW.**

It has been long-standing NUS policy that the National Minimum Wage should be equal for all ages and for those undertaking apprenticeships; the fact such differential rates exist in the first place is a fundamental problem with the minimum wage. Even the adult rate is set too low, and NUS believe that a genuine Living Wage should be paid to all.

In 2015, with the Government stating its ambition to "increase the real value of the National Minimum Wage" and acknowledging in its July budget that the minimum wage must reflect the actual cost of living not currently represented by the minimum wage, the LPC has a significant opportunity to prevent exploitation of the poorest young workers and apprentices. In the government's first budget George Osborne announced that the minimum wage would be raised to £9 an hour by 2020. Prime Minister David Cameron called the Living Wage "an idea whose time has come"¹.

NUS believe that the government's national living wage proposal is problematic on two fronts. Firstly, the government's proposed increased rate is not in fact a living wage as determined by the living wage foundation. Secondly, notwithstanding our concerns about the rate of the minimum wage, but that it will

increase the disparity between young and old, and moves even more young people into the poorest paid in society by applying only to those at 25 years or over.

In this context, it should be of the utmost priority for the LPC to ensure younger workers see a substantial increase in their NMW rates.

This response examines four key issues for our members: the age differentials in the minimum wage rates, the apprenticeship rate, raising the NMW to the Living Wage, and the position of interns. Our recommendations are summarised below.

Recommendations

1. That the Low Pay Commission recommends to Government the **equalisation of the National Minimum Wage** so all workers, including apprentices and regardless of age, receive the same rate and that rate is set at the adult rate. More specifically, NUS urge the Government and the LPC to reconsider the exclusion of under-25s from the upcoming 'national living wage'.
2. That the LPC recommend the **adult rate of the NMW be set at the real Living Wage rate** (presently £9.15ph in London and £7.85ph elsewhere) as set by the Living Wage Foundation, further accounting for the government's proposed cut in working tax credits.
3. That the LPC should continue to recommend **strong action is taken to enforce minimum wage rules around apprenticeships, internships and unpaid work experience**, to avoid further exploitation of young workers.

¹ <http://www.citizensuk.org/campaigns/livingwage/>

Living Wage

The nature of poverty is changing. For millions of people in Britain, work does not pay enough. According to the Living Wage Commission², one in every five workers are paid less than they need to maintain a basic, but socially acceptable standard of living. Despite working two or three jobs, many struggle to put food on the table. Indeed, according to Dr John Sentamu, Archbishop of York: "For the first time, the majority of people in poverty are actually in paid employment."

Since 2005, the price of necessities has gone up such as food (+44%) and energy (+100%), while high priced items such as audio-visual goods have gone down. House prices have soared, nearly tripling since 1997.

In low income households, low pay and working poverty mean a worse diet, higher risk of health problems, more debt, and children attaining less at school at every stage of their childhood education.

According to Defra³, the poorest households were only able to buy 2.7 portions of fresh fruit and vegetables a day in 2012. Many low paid workers also face a choice between heating and eating.

According to the Living Wage Commission, in 2011 there were 926,000 working households in England needing to spend more than 10% of their income on fuel to heat their homes.

Even the amount of time spent with family is negatively impacted by low pay. A Living Wage employee gets nearly double the amount of family time during a typical working week as somebody on the National Minimum Wage.

Respondents to NUS research in 2014⁴ clearly felt the impact of low pay. Only 18% felt that the minimum wage was set at the right level to give people a decent standard of living. This decreased to 16% among women, and 13% among those with a known disability.

The Living Wage is defined as the minimum amount of money needed to enjoy a basic, but socially acceptable standard of living. The 2015 rates are £9.15 in London and £7.85 in the rest of the UK, to reflect the higher cost of living in London.

As noted in our introduction, in 2015, with the Government stating its ambition to "increase the real value of the National Minimum Wage"⁵, the LPC has a significant opportunity to prevent exploitation of the poorest young workers and apprentices.

This must go beyond the Chancellor's budget announcement of £9 by 2020. By some inflationary estimates, the living wage will have to be pushing £10 by 2020 to be a true living wage.

In this context, it should be of the utmost priority for the LPC to ensure younger workers see a substantial increase in their pay, **by raising the NMW to a genuine Living Wage.**

² http://livingwagecommission.org.uk/wp-content/uploads/2014/02/Living-Wage-Commission-Report-v2_f-1.pdf

³ <https://www.gov.uk/government/publications/family-food-2012>

⁴ Students and Work, NUS, 2014

⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321065/letter-to-chair-low-pay-commission.pdf

Age differentials

With the announcement that the new 'national living wage' will not be applicable to those under 25 years of age, **we are increasingly concerned about the political acceptability of keeping young workers in low pay.** As the LPC is aware, this is legal only because of a specific exemption to age discrimination legislation and we believe this is being further exploited through the new rates.

Moreover, following the decision of the LPC to recommend another lower increase of the two rates for younger workers in 2014 (following on from a previous lower increase in 2013, a freeze in 2012 and a lower increase in 2011) this gap has widened still further.

Indeed, the LPC's 2014 report⁶ outlines how the youth rates have also undergone a larger fall in real value than the full adult rate. According to this report, the youth rates of the NMW today are 60 pence (for 16-17 year olds) and 44 pence (for 18-20 year olds) per hour lower in real RPI terms than they were in October 2009. This increases the economic challenges young workers face, reinforces negative attitudes to younger workers by employers.

This is an issue of that our members feel strongly about, and which has great relevance to them: the two-thirds of surveyed full-time students balance their studies with part-time employment. **50% of students who we recently surveyed were "strongly opposed" to the exclusion of under 25s from the new national living wage.** A further 18% stated they were "opposed", an overwhelming majority in total⁷.

Wider government policy has made reliance on such part-time employment all the greater. Cuts to funding in further education, including the abolition of the Education Maintenance Allowance (EMA) in England mean fewer young

people now receive support. Student loan rates in higher education in England have not kept pace with inflation and in many cases have been frozen for several years, or risen at a lower rate. The proposed abolition of student maintenance grants in England will deepen the dependence of the poorest students on debt and part-time work, and our most recent report has shown how concerns about the cost of study have a major impact on students' decision to take a part-time job, and particularly for women.⁸ 62% of students in work who we recently surveyed said they work extra hours to meet their costs. Again, women were more likely to do so.

The shrinking low-skill job market that has been exacerbated by the recent economic downturn means that student workers find it difficult to refuse longer hours, even where they are concerned about the impact it may have on their education. Moreover, **we know that longer hours have a negative impact on attainment: for a student working 16 hours per week the odds of attaining a 2:1 degree or higher were about 60% of those for a similar non-working student.**

Nevertheless, many students work substantial numbers of hours, as they have no other choice. We know from recent NUS research that those from neighbourhoods with low participation in HE (a proxy for deprivation) are more likely to work in excess of 16 hours⁹

Those that work are also less likely to work in sectors with trade union representation – only 4 per cent of 18-25 year olds were trade union members in 2005¹⁰, making it more difficult to challenge employers where required.

Policy decisions relating to education funding are of course out of the control of the LPC. However, the LPC could make a significant

⁶ The Future Path of the National Minimum Wage, LPC, 2014

⁷ NUS Student Opinion Survey, August 2015

⁸ NUS, Debt in the First Degree (2015).

⁹ The Pound in your Pocket: Measuring the Impact, NUS, 2012

¹⁰ Labour Force Survey, 2005

difference to the lives of low-paid young workers by recommending the scrapping of age differentials, which require them to work longer hours to make the same income as older workers.

The LPC justifies its decisions through claims that employment opportunities would be negatively affected by an equal rate and that younger workers are less productive than their older counterparts. There are also concerns that a higher rate could dis-incentivise full-time education.

The increased focus on research in these areas are welcome, although in the 2013 report the LPC notes that the data in support of the LPC's current position of differential rates is weak, and in many cases the evidence contradicts their position.

As we have noted in the past the research commissioned by the LPC in 2011 and 2012 and undertaken by Dickerson and McIntosh¹¹ found that, "...the relative productivity differences between younger workers aged 16-21 and older workers are smaller in the post-NMW period..." and that, "...one possible explanation is the NMW can be viewed as an efficiency wage, motivating the effort response of workers."

Both reports therefore can be read that any lack of or fall in productivity may in fact be *caused* by their lower wages, as younger workers are less motivated. **It can be argued then that the NMW age differentials may be the cause for lower productivity, rather than the justification for a lower rate**, and lower increases since the recession have reduced productivity. A worker who knows they are paid less than a co-worker doing the same job for no other reason than age is perhaps less likely to be motivated.

¹¹ p41, An Investigation Into The Relationship Between Productivity, Earnings And Age In The Early Years Of A Working Life, Dickerson and McIntosh for the Low Pay Commission, 2011. A Further Investigation Into The Relationship Between Productivity, Earnings And Age In The Early Years Of

We asked last year for the LPC to commission research to determine how much those paying the lowest rates invest in training of their younger workers. It has not done so and we recommend this again.

That higher wages and productivity linked has also been argued by Nobel Laureate Paul Krugman, positing that the increased wellbeing, job security and morale from higher minimum wages more than offsets any costs.¹²

Blatant discrimination against younger workers, even if sanctioned by law, simply cannot be justified if the same principles cannot be applied to other groups. Even were it legal, the LPC would (rightly) never contemplate lower wage rates for disabled workers or ethnic minority groups, despite some such groups having higher unemployment rates. **It should be equally unacceptable for the LPC to endorse such discrimination against young people, who have as much a right and a need for a living income as any other citizens.** This is especially acute for some of the most vulnerable groups in our society: young people who are carers, estranged from their families, or homeless.

This is a position many of the leading companies in the UK have taken – as has been noted in previous research for the LPC, large employers such as Tesco, Asda, Waitrose, Marks and Spencer and TK Maxx do not have lower rates for younger workers¹³. The logic they applied should extend to all companies operating in the UK.

Many others pay the full adult rate at 18, and only have lower rates for 16 and 17 year old workers. Another area for future LPC research which we suggest once more might be *why* they have chosen these policies as opposed to offering lower rates for younger workers.

A Working Life, Dickerson and McIntosh for the Low Pay Commission, 2012

¹² Paul Krugman, 'Liberals and Wages', New York Times, 17 July 2015.

¹³ An examination of the trend in earnings growth for young workers, Incomes Data Service for the Low Pay Commission, 2012

As for employment rates, we have noted above that the youth unemployment rate has remained more or less static for two years. In the absence of further data it is not possible to determine whether minimum wage policy has had any effect on employment at all.

A further report showed **that the introduction of a 16-17 year old rate of the NMW has had no impact on young people's decision-making between work and education**¹⁴.

Indeed, the authors of this study say their evidence, "provides reassurance that recent increases in the NMW (as well as future increases) are unlikely to unduly influence the choices that young people make as they transition out of education and into the labour market."¹⁵

We have also conducting our own inquiry in 2014/15 into young people and the labour market¹⁶, and the future of work. Submissions we received to our inquiry from industry, trades unions, young people's organisations and academics show that pay and conditions are, unsurprisingly, key factors in determining whether or not a job for a study leaver was acceptable, and that too many such opportunities were characterised by poor pay.

The trend in general towards lower paid work was a strong concern in submissions.

In the meantime we continue to believe the justifications provided for lower wages for younger workers are based on either inconclusive evidence or inaccurate assertions. We believe the LPC should recommend equalisation of minimum wage rates so that all workers aged 16 or over are entitled to the current rate for those aged 21 and over.

As George Osborne stated in the July 2015 budget, 'Britain can afford...deserves a pay rise and Britain is getting a pay rise.' **NUS would like to ask why the work of young people, often students, is less deserving of increases to the minimum wage and in fact cannot be called a 'national living wage' for Britain if millions of young workers are left out of it.**

It is a wage that is neither national nor living.

¹⁴ The impact of the minimum wage regime on the education and labour market choices of young people: a report to the Low Pay Commission, Crawford et al for the Low Pay Commission, 2011

¹⁵ p4, *ibid.*

¹⁶ NUS Commission on the Future of Work, 2015

Apprenticeships

Although we welcome the 57p increase in the apprentice minimum wage to £3.30 an hour, **NUS believes that it remains unacceptable that the apprenticeship rate is not equal with the adult rate.** For all of the reasons we outline in the previous section, we feel it is discriminatory to have a different policy for younger apprentices who undertake the same work. In our recent report, *Forget Me Not*, we outline in some detail the financial struggles of apprentices on the current apprentice minimum wage.¹⁷

In fact, the equality issues are all the more stark for apprentices: women workers are much more likely to be in those apprenticeships (hairdressing, social care) that pay at the minimum wage, whilst men dominate in better paid sectors such as engineering. The apprenticeship rate entrenches gender inequality by allowing those sectors to pay their female apprentices such a small amount and does nothing to alleviate poverty.

With the spiralling cost of public transport, this issue affects potential apprentices even before they take apprenticeships. Our research¹⁸ indicates that almost a half of apprentices are making choices about what apprenticeship to do based on what they can afford to get to, not on the basis of any information advice and guidance they might have received or their own career aspirations.

In this context **it is all the more shocking that such high proportions of apprentices are not paid at the apprenticeship rate,** with more than 70 per cent of hairdressing apprentices and two fifths of construction apprentices paid less in 2012 – worse figures than a year earlier. In the LPC's own report it states there may be a 'culture of non-compliance' in relation to hairdressing in particular.

¹⁷ NUS, *Forget Me Not*, 2015.

¹⁸ Travel survey, National Society of Apprentices, 2014.

Whilst we appreciate the LPC has recommended more concerted action we believe this will take time to change any such culture and the LPC will need to continue to place an emphasis on strict enforcement and public identification of those employers who are failing to comply with the law.

Even where apprentices are paid the correct rate they may not be receiving the training that ostensibly justifies their lower pay: 20 per cent said they received neither on- or off-the-job training, and BIS research suggests this the "key factor" is "lack of interest and support from employers," suggesting that in some cases employers are employing apprentices so they can pay this worker less without ever wishing to invest in training, an analogous situation to those employing 'internships' which they believe do not attract any wage at all – indeed such exploitation was reported by learners interviewed¹⁹.

Most shocking of all was the fact that the **BIS research found so many of these apprentices were resigned to lower pay and exploitation as this was what they expected from the sector in which they worked or because they felt helpless to change their situation.** The LPC has a moral imperative to improve the situation of such workers, both through increasing the minimum wage rate for apprentices and by continuing to recommend stricter enforcement.

We therefore recommend that the apprenticeship NMW rate be equal to the adult rate for all and at all stages in the apprenticeship, and rigorously enforced with employers. If apprenticeships are to be an appealing route into work for young people they must go beyond being a means to cheap labour.

¹⁹ Apprentices Pay, Training and Working Hours: a follow up to BIS Research Paper 64, BIS, 2013

Internships

NUS continues to support the LPC's position on internships and the minimum wage as outlined in successive reports, and its rejection of any different set of rules for those undertaking internships and other forms of unpaid work experience.

According to NUS research in 2014²⁰, the majority of students believe it is unfair for a person to have to work without pay for more than 2 weeks, in order to gain experience.

Indeed, 67% of higher education graduates felt that their main barrier to obtaining paid employment was the need to gain experience, or the need to work for free to gain experience.

It is greatly concerning that despite the LPC's view the problem of exploitation of internships and illegal advertisement of jobs as internships is not improving, and that the guidance is even less accessible than it was. BIS must redouble its efforts.

We therefore welcome the LPC's statement that the law relating to the NMW and internships should be rigorously enforced – including a 'name and shame' policy to expose employers who show a wilful disregard for the NMW - reiterated in the LPC's 2014 report²¹.

We would be happy to further discuss with BIS how we can assist with providing information to young and vulnerable workers on their rights in this area and how to report potential breaches of the law if necessary.

²⁰ Students and Work, NUS, 2014

²¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/288841/The

_National_Minimum_Wage_LPC_Report_2014.pdf

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