

PROTECTING YOUNG WORKERS

The National Minimum Wage

LOW PAY COMMISSION REPORT 2004

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Presented to Parliament by the
Secretary of State for Trade and Industry by
Command of Her Majesty
March 2004

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Chairman's Foreword

- 1** This report stems from recommendations we made in our fourth report, published in March 2003. In that report we sought to balance the need to give people adequate notice of increases in the National Minimum Wage with the need for flexibility to respond to prevailing economic conditions. The balance which we struck was to recommend minimum wage increases for both October 2003 and October 2004, but to recommend that we should review the October 2004 rates nearer the time against the background of current economic circumstances.
- 2** The economic forecasts for 2004 are if anything slightly more optimistic now than they were when we made our original recommendations; and we estimate that the October 2003 upratings produced slightly fewer beneficiaries than we forecast. But we recognise that the macroeconomic data do not tell the whole story. While the overall outlook is favourable, two significant increases in the National Minimum Wage in succession pose challenges for a number of businesses. Balancing these considerations, we continue to believe that it is right to make a significant increase in the level of the minimum wage, and that this is sustainable in the current economic climate. We therefore confirm our original recommendations. We will monitor their impact closely.
- 3** We also address a second important issue which emerged from our fourth report: whether the time is right to introduce a minimum wage for 16–17 year olds. Evidence which we considered in preparing our fourth report persuaded us that a minimum wage might help to tackle the existence of jobs

offering very low wages with little or no training and few development prospects. But before we could make any firm recommendations we wanted to gain a better understanding of how a minimum wage might affect incentives for young people to continue in education and training, and for employers to provide effective training. We also wanted to be sure that a minimum wage would not damage employment opportunities for young people. Finally, we thought it important to consult widely on this specific issue.

- 4** We have concluded that a wage floor for 16–17 year olds would help to prevent exploitation and encourage young people to view themselves as valued members of the workforce. Recognising the particular importance of training for people at the start of their working lives we also make recommendations designed to ensure that the introduction of a minimum wage does not reduce the provision of high quality training opportunities for young people.
- 5** This report, and in particular the question of a minimum wage for 16–17 year olds, has raised new issues for us to consider. I would like to express my gratitude to my fellow Commissioners, who have brought to the debate an open mind and a willingness to reach agreement based on careful examination of the evidence and rigorous exploration of the arguments. Once again, our conclusions and recommendations are unanimous.
- 6** I am grateful also to all those organisations and individuals outside the Commission who have shown a similar willingness to engage in constructive debate. A number of employers' organisations originally expressed doubt about a minimum wage for 16–17 year olds but, after conducting research and surveys of their members, came to the view that, set at a cautious level, it would not harm their industry and could indeed bring positive benefits. Many organisations representing young workers, meanwhile, despite being opposed in principle to age-related minimum wage rates, readily acknowledged the different perspectives and concerns which others brought to the debate. Our analysis and recommendations are all the stronger for being

able to draw on such a wide range of knowledge and expertise. We thank all those who have contributed information and research, invited us to visit their organisations, and taken part in debate. Finally, I would like to extend a particular thanks to all the members of the Commission Secretariat, who have provided excellent support to the Commission in the preparation of this report.

- 7** This report is closely linked to its immediate predecessor. But it also represents an important step in the evolution of the minimum wage. It confirms our view that the time is right for a significant increase in the real level of the minimum wage for those aged 18 and over. And it recommends extending the scope of the minimum wage to younger workers who have so far been excluded from the protection which it offers. I wrote in our last report that the minimum wage had become an accepted part of our working life. It is a reflection of that acceptance that we are able to make these recommendations, which will make a real difference to low-paid workers of all ages.



February 2004

The Commissioners

From left to right standing:
David Coats
Paul Gates
Adair Turner
David Metcalf
William Brown

From left to right seated:
Margaret Prosser
Angie Risley
Ian Hay
John Cridland



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Vice-Chairman,
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Executive Summary

Chapter 1: Introduction

- 1** Following on from recommendations we made in our fourth report, the Government gave us a remit to examine two specific issues: to review our recommended upratings of the adult and development minimum wage rates in October 2004 and to consider in detail the advantages and disadvantages of introducing a minimum wage rate for 16 and 17 year olds.
- 2** In this chapter we describe how we have carried out this work and outline the programme of analysis, research and consultation which we have undertaken to meet our remit and which has contributed to our conclusions and recommendations.

Chapter 2: Review of Rates for 2004

- 3** In our fourth report we made the case for increasing the effective level of the minimum wage, implying a series of increases for a number of years above average earnings, and increasing gradually the number of people benefiting. At the time, we were also conscious of the need for caution in economic conditions which could prove difficult. Stakeholders had also expressed a clear preference for further increases to be more equally phased, and for sufficient advance notice to be given.

- 4** Balancing these considerations, we recommended that the adult rate of the minimum wage be increased to £4.50 in October 2003; and to £4.85 in October 2004, subject to confirmation by the Commission in early 2004. We also proposed that the Development Rate be increased to £3.80 in October 2003; and to £4.10 in October 2004, again subject to confirmation nearer the time. The Government accepted our recommendations and gave us a remit to review the proposed October 2004 upratings, to determine whether our recommendations remained appropriate in the light of economic circumstances.
- 5** The economic forecasts for 2004 are if anything slightly more optimistic than they were when we made our original recommendations. Independent forecasts now suggest that Gross Domestic Product (GDP) growth will be a little stronger and inflation will be slightly higher in 2004 than previously predicted. The UK labour market remains healthy with employment rates high and unemployment low.
- 6** The macroeconomic data, however, do not tell the whole story. While the overall outlook is favourable, the two successive significant increases in the National Minimum Wage pose different challenges for business from those of previous years. A number of companies have told us that the increases will make it difficult to maintain differentials, and their current concerns appear greater than we have noted in the past. Reflecting these concerns as we monitor the impact of the increases over the coming year, we will look in detail at the impact both on particular sectors and on individual businesses. We will also examine the impact of the increases on firms' pay structures, and on prices and profit margins.
- 7** Our latest estimates suggest that the October 2003 upratings produced slightly fewer beneficiaries than we forecast. Over the next year we will carefully examine the reasons for this persistent undershoot against the forecast. We will also review the methodology for estimating wage bills. We intend to incorporate our findings into future assessments of the impact of the National Minimum Wage.

- 8** We have noted that employment trends for 18–21 year olds are less favourable than for older workers. We had already sounded a note of caution in our fourth report, and therefore recommended that the Development Rate should increase by slightly less than the adult rate during 2003 and 2004. We do not consider that the position has changed sufficiently to require us to modify our original recommendation, but we will monitor the youth labour market with particular care.
- 9** Overall, we continue to believe that it is right to make a significant increase in the relative level of the minimum wage, and that this is sustainable in the current economic climate. We therefore confirm our original recommendations.

Chapter 3: 16 and 17 Year Olds

- 10** In our first three reports we recommended that 16–17 year olds should be exempt from the National Minimum Wage. This reflected our view that 16–17 year olds form a distinct segment of the labour market, preparing for working life, rather than being full participants in the workforce. Some 70 per cent are in full-time education, with many more in part-time education or training. And ideally all 16–17 year olds should be receiving education or good quality training.
- 11** In our analysis for the fourth report, however, we became concerned by evidence of full-time jobs offering extremely low rates of pay and which provided minimal training and few development prospects. We therefore recommended to Government that we should review the 16–17 year old group in detail this year, and advise on whether a minimum wage could be introduced which put a stop to clear exploitation while neither encouraging young people out of education nor harming the supply of training places.

- 12** We conclude that this balance is possible, and that a minimum wage for 16–17 year olds should be introduced. On the assumption that it is compatible with the age strand of the European Employment Directive (2000/78/EC), we recommend the introduction of a minimum wage of £3.00 per hour for 16–17 year olds in October 2004 and the retention of the current exemption from the minimum wage for apprentices under age 19. We also recommend that 16–17 year old participants on specified pre-apprenticeship programmes should be exempt from the 16–17 year old rate.
- 13** We believe that the recommended rate is prudent and should avoid the risk of pricing this age group out of the labour market. It should be reviewed periodically but we see no reason automatically to link its level to that of the youth Development Rate. In a few years' time we would wish to look again at the position of apprentices and participants on pre-apprenticeship programmes.
- 14** The introduction of a 16–17 year old rate will mean that work on enforcement and awareness must also be extended to this age group. We recommend that the Government should use specific channels to promote awareness among young people of both the rate and enforcement mechanisms, for example by using Connexions, schools and local radio.
- 15** Early work experiences shape people's perspectives for life. The National Minimum Wage should address the worst cases of exploitation, and a wage floor for 16–17 year olds will help protect those entering the labour market for the first time. We hope that it will also help increase general awareness of employment rights for this age group. In addition it will bring the UK into line with all the other major countries with a National Minimum Wage, which already provide protection for 16–17 year olds.

Recommendations

National Minimum Wage Rates for 2004

The adult rate of the minimum wage should be increased to £4.85 and the Development Rate should be increased to £4.10 in October 2004.

16 and 17 Year Olds

A minimum wage should be introduced for 16–17 year olds, set at £3.00 in October 2004.

The current exemption from the minimum wage for apprentices aged under 19 should be retained.

Participants on specified pre-apprenticeship programmes should be exempt from the 16–17 year old rate.

The Government should give consideration to specific channels to promote awareness among young people of both the minimum wage and mechanisms for enforcement.

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1 Introduction



Following on from recommendations we made in our fourth report, the Government gave us a remit to examine two specific issues: to review our recommended upratings of the adult and development minimum wage rates in October 2004 and to consider in detail the advantages and disadvantages of introducing a minimum wage rate for 16 and 17 year olds.

In this chapter we describe how we have carried out this work and outline the programme of analysis, research and consultation which we have undertaken to meet our remit and which has contributed to our conclusions and recommendations.

Terms of Reference

- 1.1** On 16 July 2003, the Government published our new terms of reference. It asked us to:
- consider whether the October 2004 uprating of the adult and development rates recommended in our fourth report remain appropriate in the light of economic circumstances, and if not make any recommendations for change;
 - consider the possible advantages and disadvantages of a minimum wage rate for 16 to 17 year olds. We were asked to focus on the operation of the youth labour market and to work closely with the wider Government review looking at the financial incentives for young people to participate in education and training and the system of financial support for young people.

We were asked to report to the Prime Minister and the Secretary of State for Trade and Industry by the end of February 2004.

Review of Minimum Wage Rates for 2004

- 1.2** In making our recommendations for the upratings of the National Minimum Wage in our fourth report, we sought to balance the need to give sufficient advance notice of minimum wage increases with the need for flexibility to take account of changing economic circumstances. The Government accepted our view that the increases we recommended for the upratings of the adult and development rates for October 2004 should be made contingent on the economic circumstances in place at the time.
- 1.3** Our aim is to produce the maximum benefit for workers which can be achieved without damaging business and employment prospects. In preparing our fourth report, we looked at the impact on employment, on firms' wage costs, and on the numbers of people benefiting from the minimum wage. We also considered the wider state of the economy and economic prospects, together with data on recent and forecast pay

settlements. We concluded that all the signs were that the minimum wage could be increased as a percentage of average earnings – benefiting more workers – without producing damaging economic effects. These conclusions have provided the starting point for our review of the 2004 upratings.

- 1.4** Our review has focused on current economic circumstances and prospects and whether these have altered to such an extent that they require any change to the rates recommended in our fourth report. As well as examining the overall economic picture using the wide range of published information available to us, including information from independent economic forecasts and statistical and survey data, we have looked at the circumstances affecting those groups and sectors which are most affected by the minimum wage. This included inviting key stakeholders to submit evidence on whether economic conditions necessitated any change to our original recommendations. We also gathered views and evidence on how businesses were coping with the minimum wage in our visits to employers around the country.

16 and 17 Year Olds

- 1.5** In our fourth report we stated that we believed there was a case, in principle, for introducing a separate minimum wage for 16 and 17 year olds (set at a lower level than the youth Development Rate) but the precise rate and the relationship between the minimum wage and education policy needed to be considered further. We were therefore pleased that the Government agreed that the case for a minimum wage for 16 and 17 year olds required further detailed examination and gave us the remit to take this forward. In doing so the Government made clear that our work should take place in the context of a wider review being carried out by Government into education and training policy, and the system of financial support for 16–19 year olds.

1.6 To inform our considerations we carried out a written consultation exercise, held oral evidence sessions and commissioned a programme of research projects specifically to look at the issues surrounding a minimum wage for 16 and 17 year olds. We also undertook a number of visits throughout the UK. A list of the organisations and individuals who took part in our consultation and visit programme can be found in Appendix 1.

Research

1.7 Following a tendering exercise, we commissioned five research projects. These projects included both qualitative and quantitative research to examine whether the introduction of a minimum wage for 16 and 17 year olds would affect the demand for labour and whether a minimum wage would affect young people's decisions on participation in education and training.

1.8 We recognise that the introduction of a minimum wage for 16 and 17 year olds might have a particular impact on small firms. We were therefore grateful to the Small Business Service for its assistance in commissioning focus groups to seek the specific views of small firms.

1.9 A list of the research projects which we commissioned and a summary of their findings are set out in Appendix 2. We will also publish details of the research on our website (www.lowpay.gov.uk) and make the full results available in certain libraries.

Consultation

1.10 As we have done for previous reports, we have consulted widely and this has provided us with valuable input. We sought views on a minimum wage for 16 and 17 year olds from employer organisations, unions, voluntary and charitable organisations, businesses, pressure groups and academics. In addition, our website encouraged individuals, firms and organisations to submit evidence to us. We received 100 responses to this consultation.

- 1.11** We also sought the views of Government and the devolved administrations to enable us to consider the advantages and disadvantages of a minimum wage for 16 and 17 year olds in the context of education and training policy (taking account of the separate policies in England, Wales, Scotland and Northern Ireland). In doing so we sought to co-ordinate our work with that of the Government review looking at the financial incentives for young people to participate in education and training and the system of financial support for young people. We also held discussions with organisations responsible for developing and promoting training for young people and for providing careers advice.
- 1.12** We heard oral evidence from the CBI, the TUC, and other organisations representing employers and young people. We found the oral evidence sessions very productive, providing an opportunity to expand on points that had been made in written evidence.
- 1.13** In addition, we carried out a number of visits to discuss with employers and workers the issues pertinent to them on a minimum wage for 16 and 17 year olds, alongside the wider aspects of the National Minimum Wage. We visited Merseyside, Lincolnshire, Cornwall, Derbyshire, Peterborough and the Scottish Borders, and met employers and workers from a variety of sectors. We were also extremely pleased to have the opportunity to meet advisers and customers from the Connexions Service (a Government agency responsible for providing advice and support to young people), student employment advisers, and teenagers from YMCA England.

Conclusion

- 1.14** In reviewing minimum wage rates for 2004 we have not sought to undertake a full-scale assessment of the impact of the minimum wage, which we examined in detail in our fourth report. In line with the recommendations we made in our fourth report, and with the subsequent remit given to us by the Government, we have focused on updating our assessment in the light of current economic circumstances. We describe our analysis and conclusions in Chapter 2.

1.15 By contrast, this is the first time that we have analysed in detail the options for a minimum wage for 16 and 17 year olds.

We have therefore carried out an extensive analysis, consulting widely and commissioning research. Our findings are set out in Chapter 3.

1.16 We are grateful for the open and constructive input provided by those who took part in our consultations, provided oral evidence and whom we visited. We also appreciated the high quality of the research undertaken on our behalf. These contributions were invaluable in enabling us to compile this report.

2 Review of Rates for 2004



In our fourth report we made the case for increasing the effective level of the minimum wage, implying a series of increases for a number of years above average earnings, and increasing gradually the number of people benefiting. At the time, we were also conscious of the need for caution in economic conditions which could prove difficult. Stakeholders had also expressed a clear preference for further increases to be more equally phased, and for sufficient advance notice to be given.

Balancing these considerations, we recommended that the adult rate of the minimum wage be increased to £4.50 in October 2003; and to £4.85 in October 2004, subject to confirmation by the Commission in early 2004. We also proposed that the Development Rate be increased to £3.80 in October 2003; and to £4.10 in October 2004, again subject to confirmation nearer the time. The Government accepted our recommendations and gave us a remit to review the proposed October 2004 upratings, to determine whether our recommendations remained appropriate in the light of economic circumstances.

The economic forecasts for 2004 are if anything slightly more optimistic than they were when we made our original recommendations. Independent forecasts now suggest that Gross Domestic Product (GDP) growth will be a little stronger and inflation will be slightly higher in 2004 than previously predicted. The UK labour market remains healthy with employment rates high and unemployment low.

The macroeconomic data, however, do not tell the whole story. While the overall outlook is favourable, the two successive significant increases in the National Minimum Wage pose different challenges for business from those of previous years. A number of companies have told us that the increases will make it difficult to maintain differentials, and their current concerns appear greater than we have noted in the past. Reflecting these concerns as we monitor the impact of the increases over the coming year, we will look in detail at the impact both on particular sectors and on individual businesses. We will also examine the impact of the increases on firms' pay structures, and on prices and profit margins.

Our latest estimates suggest that the October 2003 upratings produced slightly fewer beneficiaries than we forecast. Over the next year we will carefully examine the reasons for this persistent undershoot against the forecast. We will also review the methodology for estimating wage bills. We intend to incorporate our findings into future assessments of the impact of the National Minimum Wage.

We have noted that employment trends for 18–21 year olds are less favourable than for older workers. We had already sounded a note of caution in our fourth report, and therefore recommended that the Development Rate should increase by slightly less than the adult rate during 2003 and 2004. We do not consider that the position has changed sufficiently to require us to modify our original recommendation, but we will monitor the youth labour market with particular care.

Overall, we continue to believe that it is right to make a significant increase in the relative level of the minimum wage, and that this is sustainable in the current economic climate. We therefore confirm our original recommendations.

Introduction

- 2.1** In our fourth report we made the case for increasing the effective level of the minimum wage, implying a series of increases for a number of years above average earnings, and increasing gradually the number of people benefiting. At the time, we were also conscious of the need for caution in economic conditions which could prove difficult. We therefore decided not to recommend the full adjustment to a new level in two years, but to take a partial step towards that end. We recommended that both the adult and the Development Rate be increased in October 2003 and again in October 2004 subject to the prevailing economic conditions in early 2004.
- 2.2** In making our recommendations we took into account the evidence of the impact of the National Minimum Wage to date, looked at prospects for the economy and considered views of stakeholders. The evidence of the impact showed that the minimum wage had been a success. There had been negligible adverse effects on employment and inflation. It had benefited

many low-paid workers, although fewer than we originally forecast. And while some firms had found adjustment difficult, the impact on aggregate and sectoral wage bills had been minimal.

- 2.3** Since our aim is to have a minimum wage that helps as many low-paid people as possible without adversely affecting the economy, we concluded that there was a strong case for a significant step up in the level over the next few years, contingent on economic circumstances. Economic forecasts at the time suggested that such a step up could be achieved against a background of steady low-inflation growth. However, we also recognised that there were major uncertainties in the economic outlook, arising from both economic and political factors.
- 2.4** Balancing these considerations, we recommended that the adult rate of the minimum wage be increased to £4.50 in October 2003; and to £4.85 in October 2004 subject to confirmation by the Commission in early 2004. We also believed that it was possible to increase the value of the Development Rate in real terms. But as the labour market conditions for young people gave cause for some caution, we proposed that the Development Rate should increase by more than the forecast increase in average earnings but by slightly less than the adult rate. We recommended that the Development Rate should be increased to £3.80 in October 2003; and to £4.10 in October 2004, again subject to confirmation nearer the time.
- 2.5** The Government accepted our recommendations and gave the Commission a remit to review the recommended October 2004 upratings, to determine whether our recommendations remained appropriate in the light of economic circumstances.

2.6 We begin our review by revisiting our estimates of the impact of the 2003 upratings, looking in particular at the number of beneficiaries and at the impact on the wage bill. We then assess the economic outlook for 2004. In the third section we examine the labour market, before looking at earnings, pay settlements and prospects for pay. We then summarise the views of stakeholders. Finally, we update our assessment of the likely impact of the 2004 recommended upratings on beneficiaries and the wage bill before setting out our conclusions and recommendations.

The 2003 Upratings

2.7 To estimate the impact of our recommended rates we used two alternative assumptions: first, that in the absence of a minimum wage the earnings of the lowest paid would rise in line with prices; and secondly, that they would rise in line with average earnings. These two assumptions produced a range of estimates for beneficiaries and for the impact on the wage bill.

2.8 The upper bound estimate given in our fourth report (low wages rising in line with prices) would see total beneficiaries of 1.6 million in October 2003, rising to 2.5 million in October 2004. The more realistic earnings assumption saw total beneficiaries of 1.3 million in 2003 rising to 1.7 million in October 2004.

2.9 The latest estimates of jobs benefiting from the October 2003 National Minimum Wage upratings are shown in Table 2.1. These are based on pay data from the New Earnings Survey (NES) and Labour Force Survey (LFS) for Spring 2003. They show total beneficiaries ranging from 1.1 million to 1.2 million, slightly lower than estimated in the fourth report. As we predicted, the estimates based on the earnings assumption are proving more realistic than those based on the prices assumption.

Table 2.1**Jobs Benefiting from October 2003 National Minimum Wage Rates**

Hourly rates October 2003		Estimated number and percentage of jobs benefiting			
		Earnings basis		Prices basis	
		Latest estimates	Fourth report estimates	Latest estimates	Fourth report estimates
Adult rate	£4.50	1.0 million 4.3%	1.2 million 5.2%	1.1 million 4.6%	1.5 million 6.5%
Development Rate (18–21s)	£3.80	70,000 4.3%	80,000 6.3%	90,000 4.9%	100,000 7.4%
Total		1.1 million 4.3%	1.3 million 5.2%	1.2 million 4.7%	1.6 million 6.5%

Source: LPC calculations based on grossed NES and LFS data, Spring 2003.

Notes:

1. The fourth report estimates of beneficiaries assumed 21 year olds would be entitled to the adult rate. In the latest estimates they are assumed to qualify for the youth Development Rate.
2. Estimates of adult jobs and the total number of beneficiaries are rounded to the nearest 100,000.
3. Estimates of youth jobs are rounded to the nearest 10,000.
4. Estimates of the percentage of gainers are rounded to the nearest 0.1 per cent.

2.10 We now estimate the direct impact of the 2003 upratings on the wage bill to be between 0.05 and 0.06 per cent of the total wage bill, depending on the assumed pattern of earnings growth. This is within the range estimated in our fourth report of 0.03 to 0.08 per cent. It is particularly difficult this year to assess the likely impact of the restoration of pay differentials on the wage bill. Past experience provides little guidance. This is the first time that we have two successive evenly phased increases in the minimum wage. Therefore previous behaviour, where we have seen differentials squeezed in response to a large uprating and restored the following year, may not be repeated. Nevertheless, using a similar approach to the one adopted in our fourth report, we now estimate the likely wage bill impact, including the impact on differentials, to be between 0.15 and 0.18 per cent compared with the 0.07 to 0.12 per cent we estimated in our fourth report.

The Economic Outlook

- 2.11** In our fourth report we concluded that the independent forecasts available at the time suggested there would be continued low-inflation growth, with neither a further downturn nor a dramatic recovery, but that the uncertainties pointed to the need for caution in the phasing of the changes we recommended. We are now able to update our assessment, continuing to base this on a range of independent economic forecasts.
- 2.12** Overall, the macroeconomic picture looks encouraging with output increasing, the labour market robust, and inflation and interest rates low. Company profitability, as measured by the return on capital, increased throughout 2003. But investment performance, especially in manufacturing, remains poor and the current account of the balance of payments continues to be in large deficit.
- 2.13** We now turn to forecasts for growth in GDP, inflation (as measured by the retail price index excluding mortgage interest payments (RPIX)) and growth in earnings (as measured by the Average Earnings Index (AEI)). Table 2.2 summarises current independent estimates for 2003 compared with the forecasts we used in the fourth report. The earlier forecasts slightly overestimated GDP and earnings growth and underestimated inflation.

“ The adult rate of the National Minimum Wage increased from £4.20 to £4.50 in October 2003, a rise of 7.1%. The MPC [Monetary Policy Committee] continues to believe that the macroeconomic impact of this increase is likely to be small. ”

**Bank of England,
November 2003.
*Inflation Report.***

Table 2.2

Independent Forecasts for 2003

	Average	Highest	Lowest
GDP growth	2.1 (2.3)	2.2 (3.1)	1.8 (-0.4)
Inflation (RPIX)	2.6 (2.4)	2.8 (3.6)	2.4 (1.7)
Average earnings growth	3.5 (4.3)	4.0 (4.9)	3.2 (3.5)

Source: HM Treasury (2003a, 2004).
Note: Figures used in the fourth report are given in brackets.

2.14 Conversely, however, the consensus view on the economy in 2004 has improved slightly over the year, as summarised in Table 2.3. It is now expected that GDP growth will pick up and earnings will rise more slowly than previously thought, though inflation will be a little higher.

Table 2.3
Independent Forecasts for 2004

	Average	Highest	Lowest
GDP growth	2.8 (2.4)	3.5 (3.3)	0.9 (-0.3)
Inflation (RPIX)	2.5 (2.3)	3.2 (3.2)	1.8 (1.5)
Average earnings growth	4.1 (4.4)	4.6 (5.5)	3.2 (3.0)

Source: HM Treasury (2003a, 2004).
Note: Figures used in the fourth report are given in brackets.

2.15 Despite this positive outlook, risks still remain for the UK economy. The uneven nature of the pick-up in the global economy, uncertainties over the sustainability of US debt levels, and the relatively disappointing economic performance of the eurozone present a threat to a consolidated recovery.

2.16 Domestically, a sharp weakening in the UK housing market and a corresponding adjustment in prices might have an adverse effect on consumption expenditure. And renewed nervousness in financial markets and falls in business and consumer confidence could result from the ongoing threat of terrorism and continued concern over security.

2.17 Equally, however, there are several potential upsides to growth. The swift turnaround since Spring 2003 has continued into early 2004 and suggests that the present world economic revival may be stronger than anticipated. Business inventories remain close to historically low levels, and a period of significant stock building could provide a powerful short-term stimulus to growth and trade.

2.18 Looking at the sectors most affected by the minimum wage, we can see that these macroeconomic trends are likely to affect them differentially. The expected moderation in consumer spending will lead to slower growth in the retail sector. While the hospitality sector will also be affected by the slowing down of consumer spending, the tourism related elements should benefit from the upturn in the world economy, especially in the United States. The recent weakening of the dollar could however affect this stimulus, and political risks remain. World economic recovery and the recent slight weakening of the pound (against the euro and many non-dollar currencies) may slow the pace of decline in the textiles, footwear and clothing sectors, which have been shedding jobs for some time. Hairdressing, cleaning and security are much less affected by the business cycle. Increasing government expenditure and an ageing population are likely to maintain, or increase, demand in the social care sector.

Employment, Unemployment and Inactivity

2.19 The labour market remains robust. The number of people in work is at its highest ever level, with the employment rate also close to its record level. Unemployment is very low by historical standards and the claimant count is at its lowest for over 28 years.

Looking at the industry's economic situation, we would draw attention to just two points: the first is the strength of Sterling against the Dollar, which will continue to depress inbound tourism from the high-spending USA, and the second is the general rise in costs affecting hospitality operators over recent months, most notably the increases in National Insurance Contributions and in business insurance costs.... The potential of the industry to bear yet more cost increases is now very limited. ”

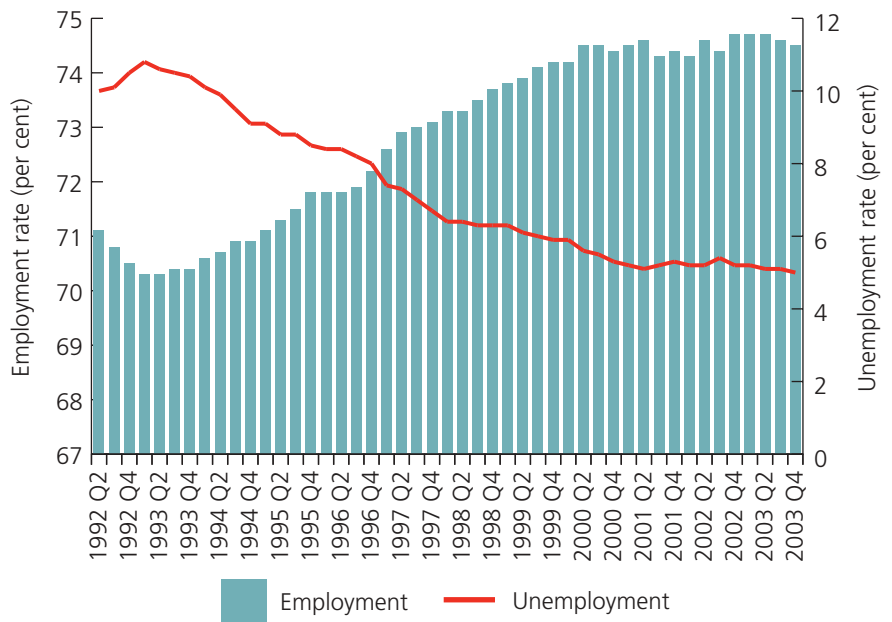
**British Hospitality
Association evidence**

The manager of a pub-restaurant said the minimum wage had not changed either staff numbers or hours worked; lower staff numbers were a result of the tight labour market and recruitment difficulties. The price of drinks would be increased to offset the cost of the October 2003 uprating.

Low Pay Commission Visit to the East Midlands

Figure 2.1

Trends in Working Age Employment and Unemployment Rates, 1992–2003



Source: LFS, 1992–2003.

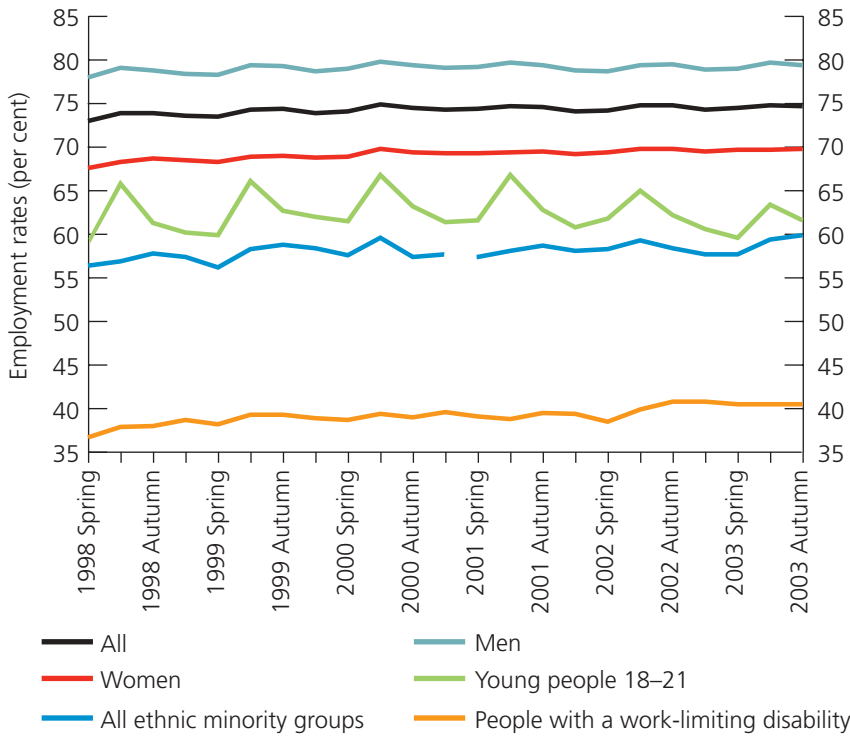
Notes:

1. Data are seasonally adjusted.
2. Data have been revised to reflect the 2001 Census.

2.20 Figure 2.1 shows that in the 15 months following the October 2002 uprating, the employment rate (the percentage of those of working age who are employees, self-employed, on government training schemes or unpaid family workers) remained stable at around 74.6 per cent. Between the third quarter of 2002 and fourth quarter of 2003, the number of working age people in employment rose by 233,000. During this period the unemployment rate (the percentage of working age economically active people who are actively seeking work and available to start) fell from 5.4 per cent to 5.0 per cent, representing 89,000 fewer people in unemployment. The inactivity rate (the percentage of those of working age not in employment or unemployed) rose slightly to 21.5 per cent, with an increase of 80,000 inactive people. Compared with the same period a year earlier, vacancies fell for much of 2003 but have picked up since November 2003.

2.21 The impact of the minimum wage is felt predominantly among certain groups of workers and sectors. We have therefore looked particularly closely at recent trends within these groups and sectors.

Figure 2.2
Working Age Employment Rates of Different Groups, 1998–2003



Source: LFS, 1998–2003.

Notes:

1. Data are not seasonally adjusted.
2. Data for all, men and women have been revised to reflect the 2001 Census.
3. Data for other groups have not been revised.
4. The definition of ethnic groups in the LFS changed in Spring 2001 to be in line with the 2001 Census classifications; thus direct comparisons between the periods before and after should not be made.

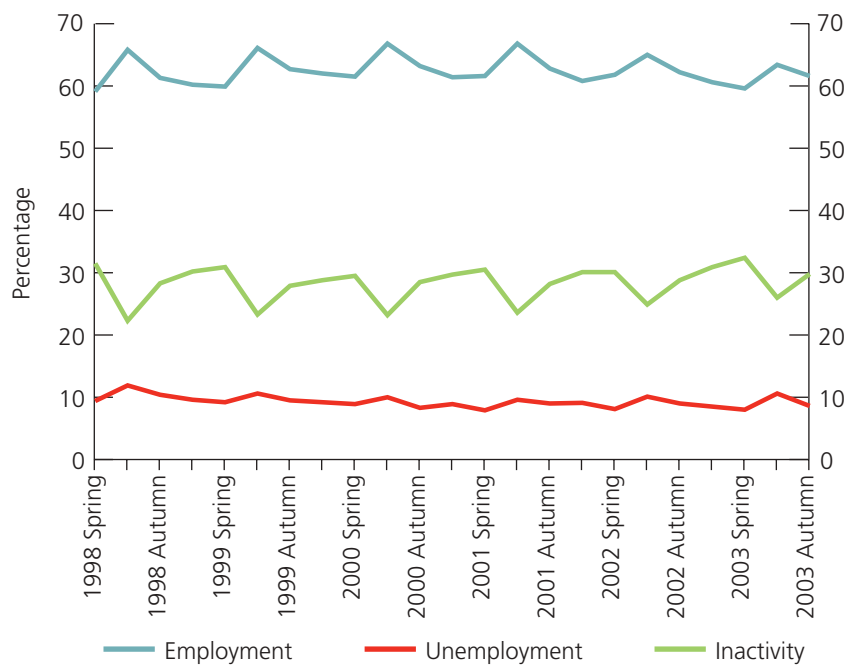
2.22 Far more women are affected by the minimum wage than men. Figure 2.2 shows that employment rates for both men and women have been remarkably stable since the introduction of the National Minimum Wage in Spring 1999. There have been slight increases in the employment rates of two other disproportionately affected groups, ethnic minorities and those with a work-limiting disability.

The partner in a small retail business said that with the October 2003 increase in the minimum wage she would not be able to continue to pay £1 per hour above the minimum wage to her two full-time staff. Also, as the business’s bottom line had remained static, partly due to the advent of some large out of town retailers and the consequent reduction in footfall in the town, she had to consider how to cut costs. She had been forced to consider dismissing two less productive part-time members of staff as at the minimum wage they no longer represented value for money. She was also considering reducing the shop opening hours.

Low Pay Commission Visit to Cornwall

2.23 In contrast, since the Summer of 2001, younger workers have fared less well. After allowing for seasonal factors, employment rates for those aged 18–21 have continued to decline, falling by 0.6 percentage points in the year to Autumn 2003. This is confirmed in Figure 2.3, which also shows that the proportion of this age group who are inactive or unemployed has risen over the same period. It should be noted that while the unemployment rate has risen among young women, it has fallen among young men.

Figure 2.3
Labour Market Status of 18–21 Year Olds, 1998–2003



Source: LFS, 1998–2003.

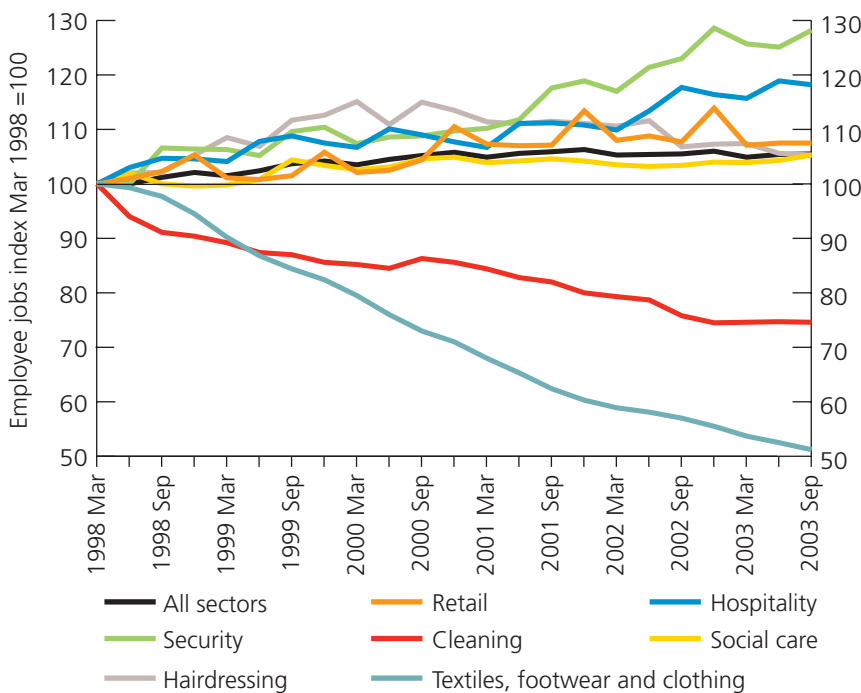
Notes:

1. Labour market status data are shown as the percentage of all in the cohort.
2. Data are not seasonally adjusted.

2.24 Some concern about these employment rates was expressed in evidence submitted to us. The recent large increase in the total population of 18–21 year olds may be an explanation for the decline in the employment rate. But the absolute number in employment has also declined. Nor can the fall in employment be attributed entirely to increased participation in education. While the proportion of 18–21 year olds in full-time education (FTE) has increased, the number of 18–21 year olds not in FTE

has also risen. And it is among this group that the decline in employment has been most evident, with consequent increases in unemployment and inactivity rates for 18–21 year olds not in FTE. Declining employment may be related to the economic cycle: the slowdown in the economy (with below trend growth over the relevant period) may have led to fewer young workers being taken on. There may also be a slight minimum wage effect, although there is a high degree of uncertainty here and it would be unwise to draw any clear conclusions. Since the minimum wage was introduced, the wages of those covered by the youth Development Rate have risen slightly faster than those of people on the adult rate and the increase in average earnings. Nevertheless, the full position, and the reasons for it, are far from clear and we will continue to pay close attention to the impact of the minimum wage on the youth labour market.

Figure 2.4
Employment Change in Low-Paying Sectors, 1998–2003



Source: ONS employee jobs series, 1998–2003, Great Britain.
 Note: Data are not seasonally adjusted.

For the first time since September 1999, retail employment growth has been negative. In March 2003 the number of retail jobs dropped 0.7% compared to a year [previously] and again in June 2003, where it fell 1.1% compared to June [2002].
 British Retail Consortium evidence

2.25 For our sectoral analysis we use data on employee jobs which, unlike the aggregate employment data, do not include the self-employed. In the year to September 2003 the number of

The owner of a restaurant and small hotel told us that the tight labour market, image of the industry and location of the hotel made recruitment difficult. This had more of an impact than the minimum wage. Wage increases could be passed on in the room rates, but it was harder to increase restaurant prices.

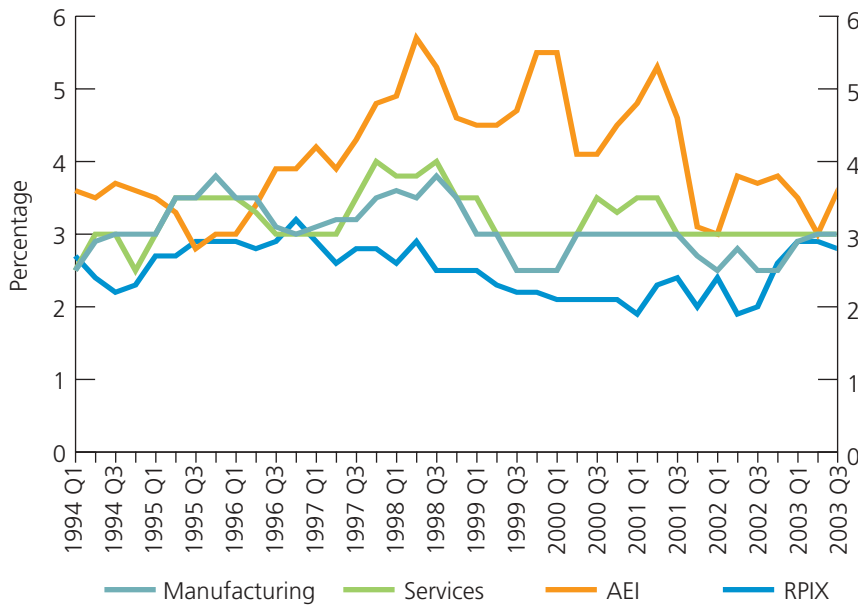
Low Pay Commission Visit to the East Midlands

employee jobs in the sectors most affected by the minimum wage fell by about 9,200, with a gain of 14,000 male employee jobs being more than offset by a loss of 23,200 female employee jobs. There are some differences among the sectors, with strong growth in security and, to a lesser extent, in social care and hospitality, but falls elsewhere, notably in textiles, footwear and clothing. Across the low-paying sectors as a whole, the number of full-time employee jobs increased, while the number of part-time employee jobs fell. Figure 2.4 shows that the longer-term picture since the introduction of the minimum wage in 1999 remains one of strong growth in most affected sectors, with the exception of cleaning (where the causes of the trend remain unclear) and textiles, footwear and clothing (where the impact of the minimum wage is believed to be less significant than the impact from very low wage competition from overseas).

Earnings, Pay Settlements and Prospects for Pay

2.26 In deciding what minimum wage rates to recommend, we need to take account of what is happening to earnings and pay settlements across the economy. Data from the Office for National Statistics (ONS) show that the annual growth of earnings (including bonuses) in the whole economy was 3.4 per cent in the three months to December 2003. The annual growth of private sector earnings (including bonuses) picked up slightly in the second half of 2003, growing at a headline rate of 3.2 per cent in December 2003, up from a low of 2.4 per cent in June 2003. Public sector pay continued to grow strongly in 2003, reaching a peak of 5.6 per cent in August and September, before falling back to 4.4 per cent in the three months to December.

Figure 2.5
Average Private Sector Pay Settlements, 1994–2003



Source: CBI Pay Settlements Survey and ONS, 1994–2003.
Note: CBI pay data for the third quarter of 2003 are provisional.

2.27 Turning to pay settlements, data from the CBI, Incomes Data Services (IDS) and Industrial Relations Services (IRS) all confirm the stability of recent pay awards. The latest CBI settlement data, given in Figure 2.5, show a continuation of trends experienced over the recent past. Settlements in the services sector have remained remarkably stable – median awards have been around 3 per cent in every quarter since the third quarter of 2001. Median settlements in manufacturing edged up from about 2.5 per cent throughout 2002 to 3 per cent in the second and third quarters of 2003. The recent pick-up in nominal awards has not translated into real earnings growth, as inflation also increased slightly in 2003.

2.28 We have already seen that recent forecasts for average earnings growth in 2004 are slightly lower than the 2004 forecasts available to us at the time of the fourth report. However they remain slightly higher than for 2003. Looking at the prospects for pay settlements, IDS (2004) expects higher settlements overall in 2004. It sees signs of recovery in manufacturing which will lead to fewer pay freezes. It believes that this, combined

“ Weak trading conditions and intense price competition have ensured private sector settlements remain benign and pose no threat to inflation. [We] do not expect these factors to change rapidly next year. ”

CBI News Release
December 2003

A care home owner said increases in the minimum wage had had a significant impact on her costs and to date she had managed this by the gradual erosion of wage differentials between staff grades. The local labour market had also driven up pay rates. The increase in staff costs was considerably higher than the increase in local authority fees, and the home could not afford to take on any more clients at local authority fee levels.

Low Pay Commission Visit to Cornwall

“ We do not believe it is a level of increase that will lead to massive job losses or to thousands of retailers going out of business. Retailers who, unfortunately, do go out of business, do so for a whole number of reasons, such as aggressive competitors or high interest charges, rather than an increase in the minimum wage. ”

Usdaw evidence

with economic growth and inflation, will exert some upward pressure on wages in the private sector, but that the Government appears determined to hold down pay rises in the public sector. IRS (2004) believes that ‘faster economic growth and the tightness of the labour market will place some upward pressure on [pay] settlements’ but that ‘the benign inflationary outlook and companies’ inability to pay will exert a dampening effect’. It concludes that ‘the net result will be broadly neutral and no change from the current settlement level is expected’. The CBI believes that economic growth over 2004 and 2005 will be offset by stable inflation to leave wage settlements relatively subdued.

Stakeholders’ Views

2.29 Before we made our original recommendations on rates for 2004 we carried out a detailed analysis of the impact of the minimum wage to date and consulted widely. Our present review of our recommendations for 2004 is narrower in scope, focusing on current economic conditions. While we have therefore not consulted so extensively, we supplemented our own economic analysis by inviting views from key stakeholders on whether economic conditions were such as to require any change to our recommendations. We invited respondents to focus on information not in the public domain and on the impact on particular groups or sectors most affected by the minimum wage.

2.30 Perhaps unsurprisingly, responses were mixed. In general, trade unions supported increasing the rates in line with the fourth report recommendations. In addition, the Trades Union Congress (TUC) suggested that there might be scope to increase rates further than originally recommended, and in UNISON’s view the October 2004 rises should ideally be increased. By contrast, employer representatives from the hairdressing, retail, hospitality, care, manufacturing, textiles and clothing sectors all argued that economic conditions were difficult and that they would find the proposed increases hard to bear. As a consequence, some called for a reduction in the proposed increases. The CBI argued that

the economic recovery was very much in its infancy; and that, with increases in the minimum wage substantially above average earnings growth, it was increasingly difficult to offset the cost of the minimum wage by improving productivity, raising prices, or squeezing profits. It also stated that there was limited scope for further compression of differentials and that the proposed rise to £4.85 would mean a significant knock-on effect on differentials, leading to substantially higher wage bills.

2.31 In its response, the Government noted that: UK GDP growth had increased strongly in the second and third quarters of 2003 and that this pick-up was expected to be consolidated in 2004; employment levels had grown strongly over the past few years, with no evidence to suggest the minimum wage had affected the aggregate level of employment or unemployment; and the impact on low-paying sectors appeared to have been slight. It concluded that the economic conditions were consistent with the increases we recommended in Spring 2003.

“ The recommendations in the March 2003 report ... would mean a further 7% plus increase in the National Minimum Wage at a time when earnings in our industry will not go up by more than 2.7%.... Not only is this having a crippling effect on incentive payment systems, but also on differentials generally. ”

British Apparel & Textile Confederation evidence

Impact of the 2004 Recommendations

2.32 Just as we have been able to update our estimates of the beneficiaries from the 2003 upratings, we can also use the Spring 2003 pay data, coupled with recent forecasts for prices and earnings growth, to produce revised estimates of the likely number of beneficiaries from the upratings we recommended for October 2004. Table 2.4 includes estimates based both on the earnings assumption (i.e. that in the absence of a minimum wage, the earnings of the low paid would rise in line with average earnings) and on the prices assumption (i.e. that they would otherwise rise in line with prices). In our fourth report we concluded that, in the long run, the earnings assumption was likely to produce more realistic estimates. On this basis, the estimated number of beneficiaries has decreased slightly to 1.6 million, from the 1.7 million estimated in our fourth report.

“ If you find that this year’s rise will affect fewer people than you expected then, other things being equal, this would be a good argument for recommending an increase that is more generous than the existing proposals for 2004. At the very least, there can be no question about whether the planned increases should be implemented. ”

TUC evidence

Table 2.4

Jobs Benefiting from October 2004 National Minimum Wage Rates

Hourly rates October 2004	Estimated number and percentage of jobs benefiting				
	Earnings basis		Prices basis		
	Latest estimates	Fourth report estimates	Latest estimates	Fourth report estimates	
Adult rate	£4.85	1.5 million 6.2%	1.6 million 6.9%	1.8 million 7.7%	2.3 million 9.7%
Development Rate (18–21s)	£4.10	110,000 6.2%	100,000 7.6%	130,000 7.2%	150,000 11.3%
Total		1.6 million 6.2%	1.7 million 6.9%	1.9 million 7.6%	2.5 million 9.8%

Source: LPC calculations based on grossed NES and LFS data, Spring 2003.
Notes:

1. The fourth report estimates of beneficiaries assumed 21 year olds would be entitled to the adult rate. In the latest estimates they are assumed to qualify for the youth Development Rate.
2. Estimates of adult jobs and the total number of beneficiaries are rounded to the nearest 100,000.
3. Estimates of youth jobs are rounded to the nearest 10,000.
4. Estimates of the percentage of gainers are rounded to the nearest 0.1 per cent.

2.33 Turning to the impact on the wage bill, we estimated in our fourth report that the direct effect of the proposed 2004 upratings would be an increase in the current wage bill of between 0.05 and 0.09 per cent. We now estimate the impact to be between 0.05 and 0.1 per cent, depending on the assumed path of earnings growth of the lowest paid.

2.34 Looking at the impact of the increase in the adult rate and the youth Development Rate separately, we estimate the direct impact of the increase in the adult rate to be between 0.05 and 0.1 per cent of the wage bill. The direct impact of the increase for those aged 18–21 would be an increase of between 0.12 and 0.21 per cent in the wage bill for this age group. In percentage terms the impact for 18–21 year olds is higher than for adults; but because

the numbers are far fewer, in cash terms the impact of the Development Rate uprating is much smaller, and has a minimal effect on the aggregate wage bill impact.

2.35 This is the first time that we have recommended two substantive increases in successive years. As noted in paragraph 2.10, this makes it particularly difficult to gauge the impact of the recommended changes on differentials. Adopting a similar approach to calculating the differential impact to the one we used in the fourth report, we estimate the likely wage bill impact to be between 0.17 and 0.23 per cent compared with 0.09 to 0.13 per cent in the fourth report.

Conclusions and Recommendations

2.36 The consensus view on the economy in 2004 has improved slightly since our fourth report. It is now expected that GDP growth will be a little stronger and inflation will be slightly higher than previously predicted. The labour market also remains remarkably robust. The employment rate is close to its record level, unemployment is very low by historical standards and the claimant count is at its lowest for 28 years. In view of this, we continue to believe that it is right to make a significant increase in the level of the minimum wage, and that this is sustainable in the current economic climate. **We therefore confirm our original recommendations that in October 2004 the adult rate of the minimum wage should be increased to £4.85 and the Development Rate should be increased to £4.10.**

2.37 However, a number of issues make close monitoring of the impact of the increases particularly important. Younger workers have not fared so well, with employment rates for those aged 18–21 on a downward trend since Summer 2001. In view of this, we will continue to look closely at the youth labour market.

‘ The rise for adults from £4.20 to £4.50 in 2003 represented a 7% rise. The proposed increase from £4.50 to £4.85 for 2004 represents a 7.7% rise. Many members of BISL have been forced to move to a flat structure of management due to the effect of the NMW on their business. ’
Business in Sport and Leisure evidence

- 2.38** And despite the positive macroeconomic outlook, business has also expressed concerns over the impact of two successive significant increases in the National Minimum Wage. In particular, a number of firms have told us that the increases will make it very difficult to maintain differentials. Over the coming year, we will look in more detail at the impact of the increases on particular sectors and on individual businesses, including the effect on firms' pay structures, and on prices and profit margins.
- 2.39** A recurring issue for the Commission has been the consistent over-estimation of beneficiaries, and again in this report we have estimated that the October 2003 upratings produced slightly fewer beneficiaries than we originally forecast. We will be examining the reasons for this over-estimation, along with a review of the methodology for estimating wage bills. We intend to incorporate our findings into future assessments of the impact of the National Minimum Wage.

3 16 and 17 Year Olds



In our first three reports we recommended that 16–17 year olds should be exempt from the National Minimum Wage. This reflected our view that 16–17 year olds form a distinct segment of the labour market, preparing for working life, rather than being full participants in the workforce. Some 70 per cent are in full-time education, with many more in part-time education or training. And ideally all 16–17 year olds should be receiving education or good quality training.

In our analysis for the fourth report, however, we became concerned by evidence of full-time jobs offering extremely low rates of pay and which provided minimal training and few development prospects. We therefore recommended to Government that we should review the 16–17 year old group in detail this year, and advise on whether a minimum wage could be introduced which put a stop to clear exploitation while neither encouraging young people out of education nor harming the supply of training places.

We conclude that this balance is possible, and that a minimum wage for 16–17 year olds should be introduced. On the assumption that it is compatible with the age strand of the European Employment Directive (2000/78/EC), we recommend the introduction of a minimum wage of £3.00 per hour for 16–17 year olds in October 2004 and the retention of the current exemption from the minimum wage for apprentices under age 19. We also recommend that 16–17 year old participants on specified pre-apprenticeship programmes should be exempt from the 16–17 year old rate.

We believe that the recommended rate is prudent and should avoid the risk of pricing this age group out of the labour market. It should be reviewed periodically but we see no reason automatically to link its level to that of the youth Development Rate. In a few years' time we would wish to look again at the position of apprentices and participants on pre-apprenticeship programmes.

The introduction of a 16–17 year old rate will mean that work on enforcement and awareness must also be extended to this age group. We recommend that the Government should use specific channels to promote awareness among young people of both the rate and enforcement mechanisms, for example by using Connexions, schools and local radio.

Early work experiences shape people's perspectives for life.

The National Minimum Wage should address the worst cases of exploitation, and a wage floor for 16–17 year olds will help protect those entering the labour market for the first time. We hope that it will also help increase general awareness of employment rights for this age group. In addition it will bring the UK into line with all the other major countries with a National Minimum Wage, which already provide protection for 16–17 year olds.

Introduction

- 3.1** In our fourth report we recommended that the Government should ask the Commission to consider in detail the introduction of a minimum wage rate for 16–17 year olds and to report by February 2004, so that a rate could be introduced by October 2004. We concluded that there was in principle a case for introducing a minimum wage for 16–17 year olds but wished to consider further the relationship between any such minimum wage and education policy, and the level at which any rate should be set.
- 3.2** In making the recommendation in our fourth report we made clear that we wished to consider a minimum wage for 16–17 year olds set at a lower level than the youth Development Rate (which applies to 18–21 year olds). We also indicated that we would need to consider the interaction between a minimum wage for 16–17 year olds and the current exemption for apprentices aged under 19.
- 3.3** The findings in our fourth report represented a development in our approach towards 16–17 year olds, whom we had previously recommended should not be entitled to a statutory minimum wage. In preceding reports we took the view that this age group should not be regarded as fully participating in the labour market. The overwhelming majority were in full-time education (FTE), part-time education or work-related training

and we did not want to encourage young people to leave education or training positions, nor to discourage employers from providing training and work experience opportunities for young people. This remains our view and we continue to believe strongly that 16–17 year olds should be in FTE or training. But we also recognise that many young people have part-time jobs alongside their studies, and some young people are working full-time in jobs with little or no training. Our wish to examine the case for a minimum wage for this age group was driven in particular by a desire to address the cases of full-time jobs offering low pay and few development prospects.

3.4 This chapter is divided into five sections. The first part provides background information on the labour market activities of 16–17 year olds, their earnings, regional variations and sectors employing this age group. It also looks at initiatives to encourage participation in education or training. The second section looks at minimum wages in other countries. The third reports stakeholders' views on the advantages and disadvantages of a minimum wage for 16–17 year olds. The fourth part considers whether the introduction of a minimum wage for 16–17 year olds would affect young people's decisions on participation in FTE, training or employment, or alter the provision of employment and training opportunities. The fifth and final section sets out our recommendations.

Background

3.5 This section reviews the current position of 16–17 year olds in the UK. We consider their labour market position according to their education and employment status, and look at their earnings. We also review regional variations, identify the sectors employing this age group and outline recent initiatives to encourage participation in education and training.

3.6 Limitations to the statistical data provided by the Office for National Statistics (ONS) restrict our ability to analyse the labour market position of 16–17 year olds. Small sample sizes, low coverage of those paid below the income tax threshold and a high degree of proxy responses mean that data on both the labour market activities and earnings for this age group need to be treated with caution, with emphasis placed more on trends over time rather than small deviations in particular years. There is also only limited scope to look in more detail at particular groups of 16–17 year olds (e.g. by sector or region). Where possible we supplement the ONS data with information from other sources.

Current Labour Market Position

3.7 In Summer 2003 there were around 1.5 million 16–17 year olds in the UK, and of these around 70 per cent were in FTE. About 17 per cent were employed and not in FTE, and the remaining 13 per cent were not in FTE and either unemployed or inactive.

3.8 Nearly three-quarters of females aged 16–17 are in FTE, compared with two-thirds of males. Figure 3.1 shows that around 37 per cent of those in FTE also have a job, with females more likely to be employed than males. Payne (2001c) found that there 'seemed to be a higher level of paid employment in Year 13 [17–18 year olds] than in Year 12 [16–17 year olds], with 59% of full-time students in Year 13 in jobs at the time of survey compared to 45% in Year 12'. Many more students, however, will have a job at some stage during the school year: Payne reported that 'in total, only 14% of full-time Year 13 students had not had a job at all since the end of Year 11'.

Figure 3.1

16–17 Year Olds in Full-Time Education by Labour Market Status, Thousands, Summer 2003



Source: LFS, Summer 2003.

Notes:

1. Data are seasonally adjusted.
2. Numbers may not sum due to rounding.

3.9 Figure 3.2 shows that among those 16–17 year olds who are not in FTE, a slightly higher proportion of males are in employment compared with females. A higher proportion of males are unemployed, and a higher proportion of females are inactive.

Figure 3.2

16–17 Year Olds Not in Full-Time Education by Labour Market Status, Thousands, Summer 2003





Source: LFS, Summer 2003.

Notes:

1. Data are seasonally adjusted.
2. Numbers may not sum due to rounding.

3.10 While much of our information on young people’s labour market activity comes from the Labour Force Survey (LFS), there are difficulties in relying on it for accurate data on participation rates of 16–17 year olds. Copeman (2001) compared LFS data with the annual estimates produced by the then Department for Education and Employment for participation in education, training and employment by 16–18 year olds in England. These estimates are based on data collected from a variety of sources (including administrative records for the major routes of study) to provide authoritative figures on participation as at the end of the calendar year. According to her report comparisons between LFS and administrative data show that:

- LFS figures for numbers in FTE and training are slightly higher than those from the administrative data;

 Broadly the factors that underlie the decision to remain in education are: prior attainment; social class and family income; parental education. Although there is a strong correlation between social class, income and parental education, there is evidence that they are independently linked with children's educational achievement and hence with post-compulsory education. 

Government evidence

- the LFS consistently and considerably underestimates participation in government-supported training (GST), which covers government schemes such as apprenticeships and key skills training to help young people not immediately able to enter a government apprenticeship programme or other employment (some young people responding to the LFS are not aware that the training provided through their employer is GST); and
- LFS estimates of participation in employer-funded training are much higher than estimates from administrative data (LFS data include those on employer-funded training who do not attend college while administrative data do not).

3.11 The Department for Education and Skills (DfES) (2003c) has published its provisional estimates for participation in education, training and employment by 16, 17 and 18 year olds for the academic year 2002/03. It estimates that among 16–17 year olds in England 66 per cent were in FTE, 9 per cent in employment but not in education or training, 8 per cent in GST, 8 per cent not in education, employment or training, 4 per cent receiving employer-funded training and 5 per cent in other education and training. DfES notes, however, that the participation rates should be treated with caution as a result of a number of issues relating to the post-2001 Census revisions to population estimates and projections.

3.12 The small sample sizes in the LFS mean that we must look to other data sources for information on the relationship between the labour market status of 16–17 year olds and their individual characteristics. Table 3.1 shows the main activities of 16 and 17 year olds in England and Wales by their individual characteristics based on data from the Youth Cohort Study (YCS). The results are from the survey of 16 year olds carried out in Spring 2002 (eight months after respondents had completed compulsory education), with the same respondents being surveyed a year later aged 17.

3.13 It can be seen that a higher proportion of 16 year olds (71 per cent) are in FTE compared with 17 year olds (63 per cent), with more of the older age group being in full-time jobs (excluding GST). Females are more likely to be in FTE than males, while men are more likely to be either in GST or a full-time job. Compared with other ethnic groups, white 16 and 17 year olds are less likely

to be in FTE and more likely to be in GST or a full-time job. Young people whose parents are in professional occupations are more likely to be in FTE and less likely to be in GST or a full-time job. Those with five or more GCSEs at grades A*–C are significantly more likely to be in FTE compared with those having fewer qualifications. Among those with no reported GCSEs or with 1–4 GCSEs grade D–G there is a much higher likelihood of being unemployed compared with more qualified 16–17 year olds.

Table 3.1

Main Activity by Characteristics of 16 and 17 Year Olds, 2002–2003

	Full-time education		GST		Full-time job (excluding GST)		Part-time job		Out of work		Other/ not stated	
	16	17	16	17	16	17	16	17	16	17	16	17
Percentage of the group defined at each row												
Age	16	17	16	17	16	17	16	17	16	17	16	17
All	71	63	9	9	9	15	3	4	6	6	2	4
Male	66	59	11	12	11	17	3	3	6	7	2	2
Female	75	67	7	6	7	13	4	5	5	5	2	5
Ethnic origin												
White	69	61	10	10	10	16	4	4	6	6	2	4
Black	82	78	3	*	2	5	*	3	8	6	4	5
Asian	85	81	4	5	2	4	2	2	4	5	2	2
Other	75	72	7	6	6	10	2	3	5	7	3	3
Not stated	55	*	10	*	9	*	*	*	15	*	8	*
Parental occupation												
Higher professional	87	81	4	5	4	8	2	2	2	3	1	1
Lower professional	79	71	7	7	6	11	3	3	4	4	2	3
Intermediate	69	61	10	11	10	16	4	3	5	5	3	4
Lower supervisory	58	49	12	11	16	22	5	6	6	8	2	4
Routine	60	48	12	13	12	19	4	5	9	10	3	4
Other	62	55	11	9	10	17	3	4	11	9	3	6
Parents' Qualifications												
At least one with degree	83	79	5	6	5	8	2	2	3	4	1	2
At least one with A Level	75	66	8	8	8	14	3	4	3	4	2	4
Neither with A Level	64	55	11	11	11	18	4	5	7	8	3	4
Year 11 Qualifications												
5+ GCSE Grade A*–C	89	85	3	4	4	6	2	1	2	1	1	1
1–4 GCSE Grade A*–C	59	47	14	13	13	21	5	6	7	7	3	5
5+ GCSE Grade D–G	48	33	17	16	15	27	6	7	11	12	4	6
1–4 GCSE Grade D–G	32	*	15	*	24	*	6	*	17	*	5	*
None reported	35	30	11	13	18	23	6	4	22	19	9	11

Sources: DfES (2003a, 2003d).

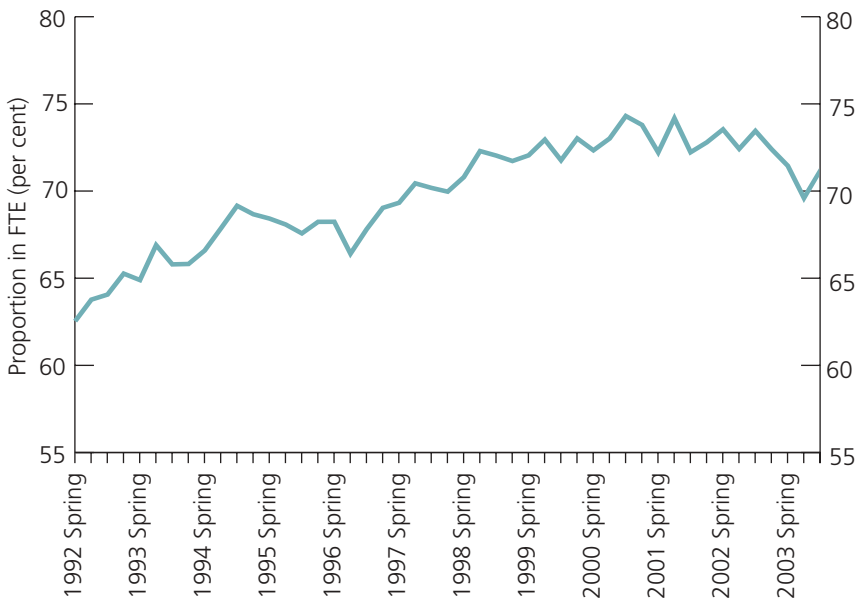
Note: * represents a non-zero quantity of less than 0.5 per cent, a cell size of less than 5 or an insufficient base.

3.14 Research suggests that, in addition to individual characteristics, participation in education may also be related to the level of demand for young people. McVicar and Rice (2001) found that, although the rapid expansion in participation from 1988 to 1994 was largely due to improvements in educational attainment (linked to the introduction of GCSEs), fluctuations in labour demand played a significant role in determining the movements in further education participation rates over time. Clark (2002) found that local unemployment rates were highly significant in determining education participation rates for boys (particularly in the further education sector, i.e. the pursuit of vocational qualifications), with much less impact on participation rates for girls.

Trends in Participation in the Labour Market

- 3.15** Small sample sizes mean that data on trends in education, training and employment need to be treated with caution. For example, in the LFS there is a sampling error of around $\pm 40,000$ in the number of 16–17 year olds in FTE (which is about ± 2.5 percentage points of the proportion in FTE). We therefore treat small deviations from trends with some care and concentrate more on broad trends. We are also aware that final revisions to population estimates as a result of the 2001 Census are due to be made later in 2004.
- 3.16** Figure 3.3 demonstrates that, as measured by the LFS, participation rates of 16–17 year olds in FTE were on an upward trend between Spring 1992 and Autumn 2000 but, after levelling off, appear to have fallen, particularly since Autumn 2002. Information from other sources, however, suggests otherwise. DfES (2003c) estimated that at the end of 2002, underlying participation rates had increased by around 1.3 percentage points for 16 year olds and about 1.0 percentage points for 17 year olds, compared with the previous year. DfES (2002a) reported a very small reduction in the proportion of 16 and 17 year olds in FTE at the end of 2001 compared with the end of 2000, but these figures used pre-Census estimates and projections and cannot be compared directly with the 2003 publication. Data published by the devolved administrations suggest there has been very little recent change in participation rates in Scotland, Wales and Northern Ireland.

Figure 3.3
 Proportion of 16–17 Year Olds in Full-Time Education, 1992–2003

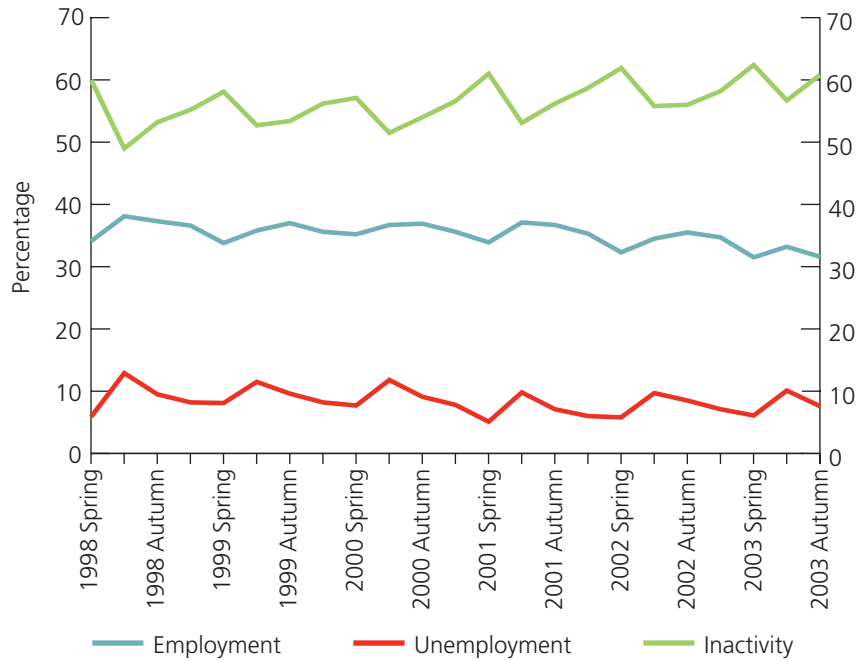


Source: LFS, 1992–2003.
 Note: Data are seasonally adjusted.

3.17 Trends for males and females in FTE show similar patterns over the last five years, although females have higher employment rates and lower inactivity rates. It can be seen from Figure 3.4 that among 16–17 year old males in FTE, employment rates and the proportion unemployed peak in Summer and Autumn. Inactivity rates are highest in the Spring, presumably with students focusing more on their exams. Among females in FTE, Figure 3.5 shows that employment rates are highest in the Autumn and Winter, with the proportion unemployed highest in the Summer and Autumn. Year on year employment rates have fallen slightly for males but remained steady for females. For both males and females, the proportion unemployed has been relatively steady and inactivity rates have increased slightly.

Figure 3.4

Labour Market Status of 16–17 Year Old Males in Full-Time Education, 1998–2003



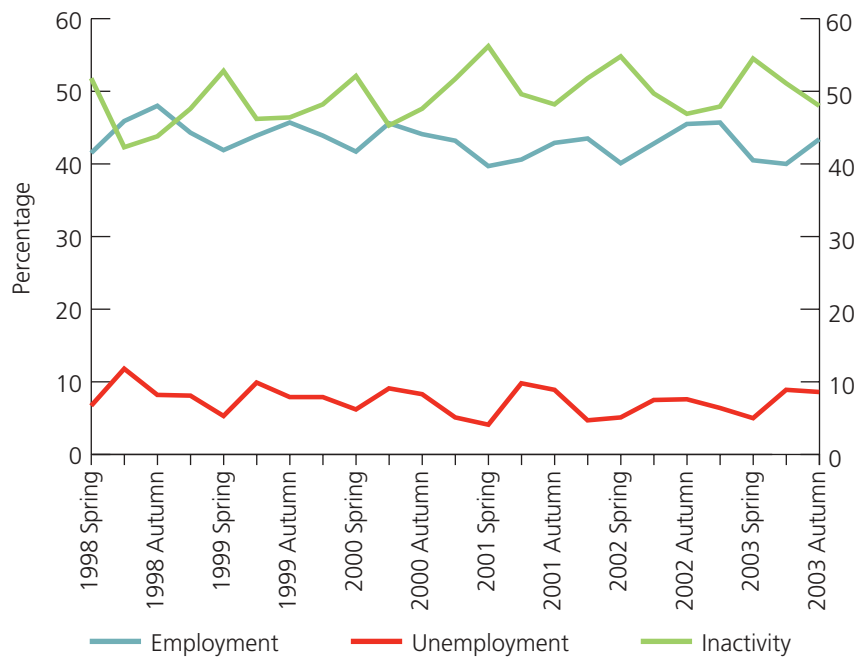
Source: LFS, 1998–2003.

Notes:

1. Labour market status data are shown as the percentage of all in the cohort.
2. Data are not seasonally adjusted.

Figure 3.5

Labour Market Status of 16–17 Year Old Females in Full-Time Education, 1998–2003



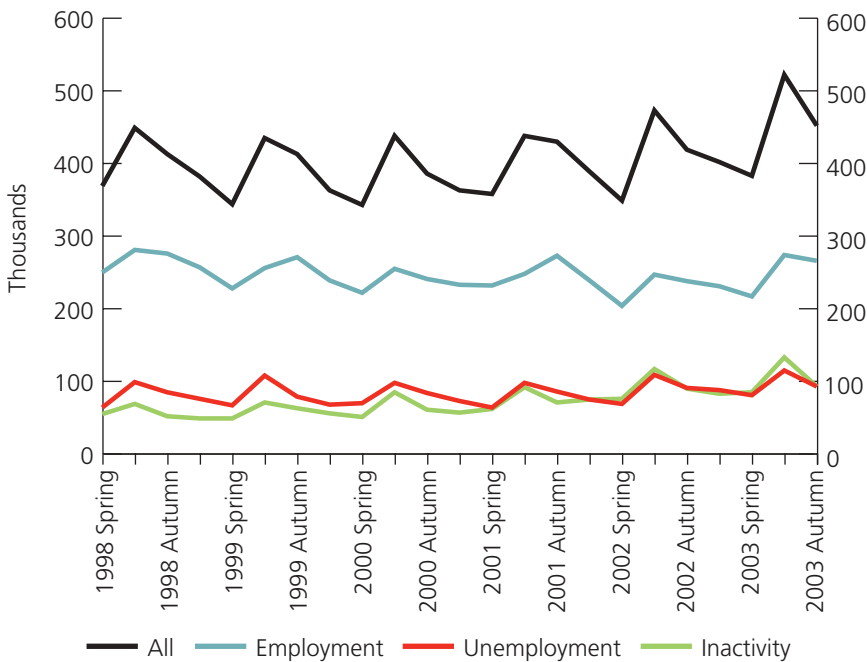
Source: LFS, 1998–2003.

Notes:

1. Labour market status data are shown as the percentage of all in the cohort.
2. Data are not seasonally adjusted.

3.18 In interpreting these trends it is important to allow for the impact of significant changes in the total number of 16–17 year olds, which according to ONS figures increased by around 100,000 between 1999 and 2002. The Government Actuary’s Department projects the total will increase by a further 60,000 by 2007, followed by a sustained fall after 2008. This has produced a significant increase in the total number of 16–17 year olds not in FTE (as shown in Figure 3.6) and explains why over the last year the employment rate of those not in FTE has fallen (as illustrated in Figures 3.7 and 3.8), even though the total number of those employed has actually risen slightly. This suggests that the labour market may be having difficulty in absorbing a surge in the number of 16–17 year olds, a factor which disappears from 2008, with a likely tightening of this section of the labour market thereafter.

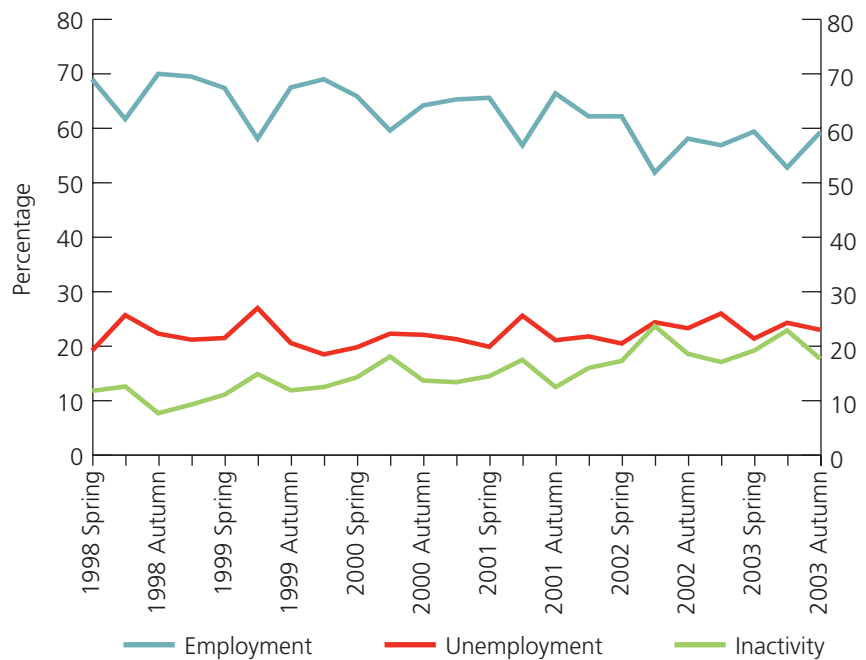
Figure 3.6
Labour Market Status of 16–17 Year Olds Not in Full-Time Education, 1998–2003



Source: LFS, 1998–2003.
Note: Data are not seasonally adjusted.

3.19 The trends for males and females not in FTE are broadly similar. As Figure 3.7 shows, employment rates for males are on a downward trend, while inactivity rates, and to a lesser extent the proportion unemployed, are rising. Among females employment rates have been falling and, since Spring 2000, inactivity rates rising, as demonstrated in Figure 3.8. The proportion of females who are unemployed rose from Spring 1999 to Summer 2000 but there has been no clear trend subsequently.

Figure 3.7
Labour Market Status of 16–17 Year Old Males Not in Full-Time Education, 1998–2003



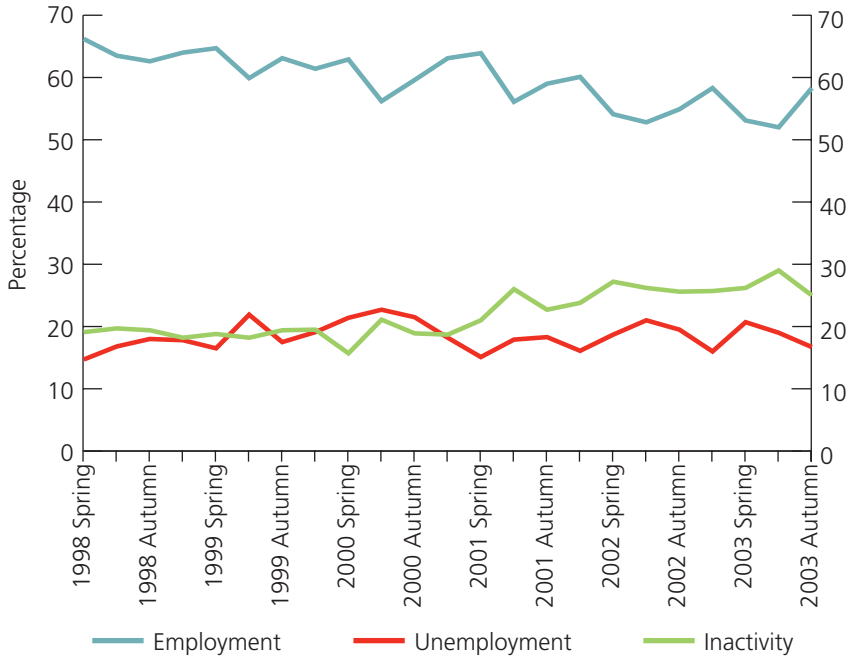
Source: LFS, 1998–2003.

Notes:

1. Labour market status data are shown as the percentage of all in the cohort.
2. Data are not seasonally adjusted.

Figure 3.8

Labour Market Status of 16–17 Year Old Females Not in Full-Time Education, 1998–2003



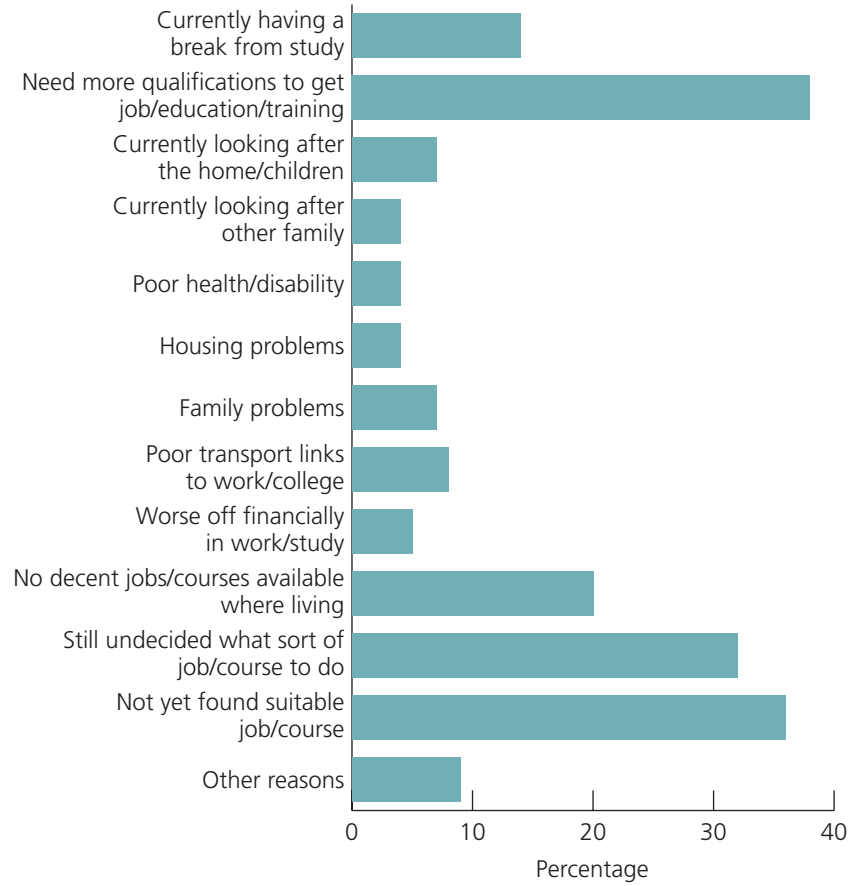
Source: LFS, 1998–2003.

Notes:

1. Labour market status data are shown as the percentage of all in the cohort.
2. Data are not seasonally adjusted.

3.20 Dickerson and Jones (2004) noted the main reasons for unemployment or inactivity among 16–17 year olds not in education or training, based on data from sweep 1 of the 2002 YCS. As shown in Figure 3.9, the main reasons given by respondents were that they needed more qualifications and skills to obtain a job, education or training place; they had not yet decided what sort of job or course to do; and/or they had not found a suitable job or course.

Figure 3.9
Reasons Cited for Inactivity/Unemployment Among 16–17 Year Olds Not in Education, Employment or Training, 2002



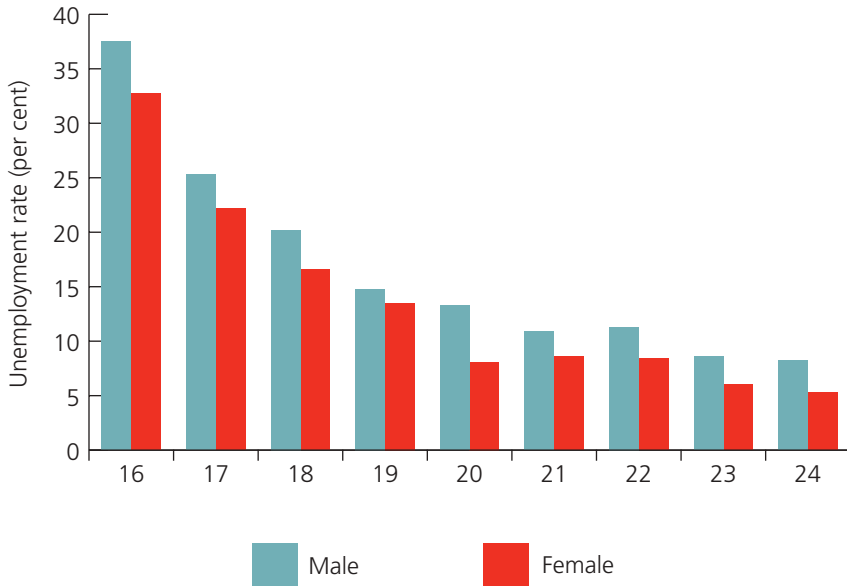
Source: Dickerson and Jones (2004).

Note: Respondents could indicate more than one reason for their inactivity/unemployment. Of those choosing reasons for their inactivity, the median number of reasons chosen is two.

3.21 Figure 3.10 shows that for young people not in FTE unemployment rates generally fall with age, with the unemployment rates for 16 year olds not in FTE being much higher than the corresponding rates for 17 year olds.

Figure 3.10

Unemployment Rates of Young People Not in Full-Time Education by Age and Sex, Autumn 2002–Summer 2003



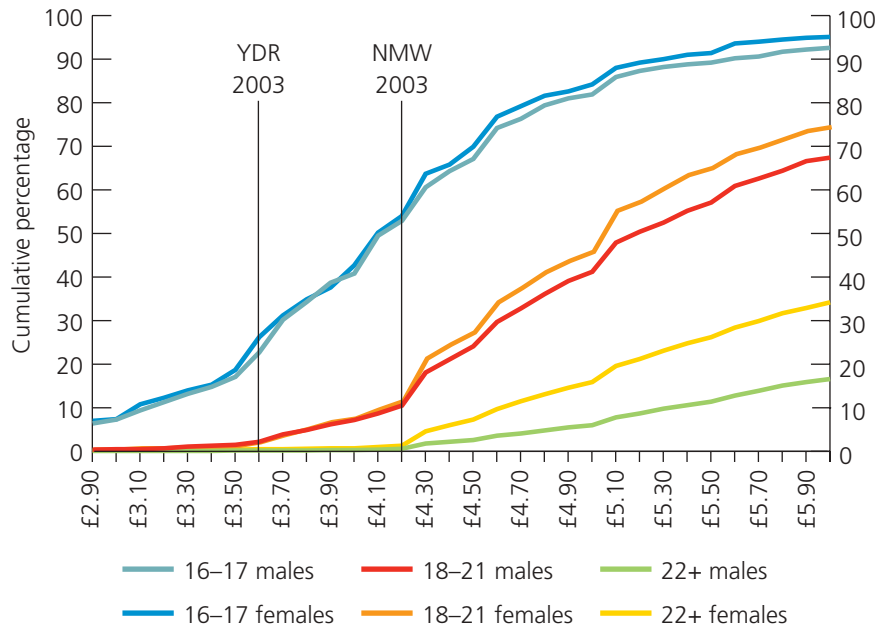
Source: LFS, Autumn 2002–Summer 2003.

3.22 In summary, participation rates of 16–17 year olds in FTE were on an upward trend between Spring 1992 and Autumn 2000 but have since levelled off. Around 37 per cent of those in FTE also have a job, and most young people who remain in FTE until age 18 will have had a job at some point during their time in education. Among those not in FTE employment rates have been falling and inactivity rates rising, while unemployment rates have also risen for males. But these trends seem to be largely explained by a temporary surge in the total number of 16–17 year olds.

Earnings

3.23 Figure 3.11 illustrates the cumulative distribution of hourly earnings of employed 16–17 year olds in Spring 2003, compared with 18–21 year olds and those aged 22 and over. The figure shows a stark contrast in the hourly earnings of 16–17 year olds compared with older age groups. It suggests that about a quarter of 16–17 year olds earned less than the then youth Development Rate of £3.60 per hour in Spring 2003 and over half received wages less than the then adult rate of £4.20 per hour. The distribution of hourly earnings for 16–17 year old employees is very similar for males and females.

Figure 3.11
Cumulative Distribution of Hourly Pay Rates by Age, Spring 2003

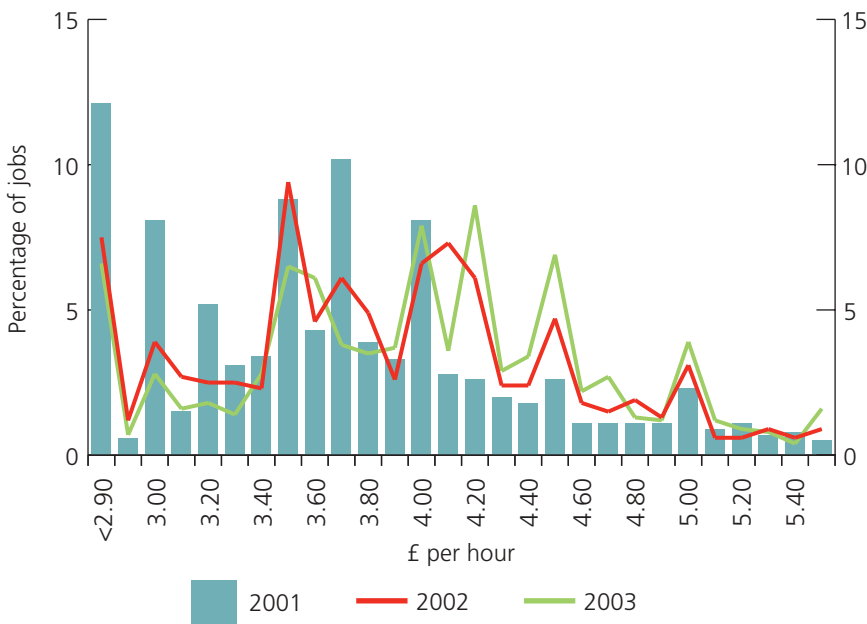


Source: ONS central estimate methodology, Spring 2003.
Note: NMW 2003 represents the adult National Minimum Wage rate in April 2003. YDR 2003 shows the youth Development Rate in April 2003.

3.24 While the data need to be treated with some caution, Figure 3.12 suggests that there has been an upward shift in the hourly earnings distribution for 16–17 year olds over the last few years. In Spring 2003, under 7 per cent of 16–17 year old employees were earning less than £2.90 per hour and about 10 per cent were earning less than £3.10 per hour. There is a peak in hourly earnings at around £3.50 – £3.60 (the latter being the level of

the youth Development Rate in Spring 2003) with further peaks at £4.00, £4.20 (the then adult rate), £4.50 and £5.00. Looking at median hourly earnings, the pay of 16–17 year olds has remained at around 80 per cent of the level for 18–21 year olds, possibly due to some firms using the youth Development Rate as a marker for setting 16–17 year olds’ wages.

Figure 3.12
Hourly Earnings Distribution for Employees Aged 16–17, Spring 2001–2003



Source: ONS and Low Pay Commission calculations using grossed New Earnings Survey and LFS data, Spring 2001–2003.

3.25 Given the small sample sizes and other concerns about the data, we have compared the picture given by the aggregate data with information from other sources. We were reassured that the aggregate data were consistent with consultation responses and the research we commissioned. It was particularly helpful to receive the results of surveys carried out by retail and hospitality employer organisations. Overall the evidence confirms some cases of low pay for jobs with no training but also indicates that the vast majority of 16–17 year olds are paid at least £3.00 per hour and many receive rates around the youth Development Rate, the adult rate or higher. It is also clear that trainees (particularly apprentices) generally receive lower wages than non-trainees. In its evidence the Government used the YCS to

In the 16 year old age group modern apprenticeships earned on average £2.27 an hour [in 2002] whereas non-apprentice/trainee jobs earned on average £3.31 an hour.

Faichnie, 2002. *The Youth Labour Market: The Impact of the Minimum Wage*.

Research Report for the Low Pay Commission.

estimate the relative level of trainees' and non-trainees' pay. It found that 'on average across sectors 16 year old employees were paid twice as much as 16 year olds in training in Spring 2002'. Results from focus groups organised by the Small Business Service also indicated that young workers receiving formal training, such as Modern Apprenticeships, were paid lower wages (for example, ranging from less than £2.00 up to £3.00 per hour in one area), while those not undertaking formal training generally received higher wages, with the youth Development Rate commonly used as a benchmark.

- 3.26** Examination of a range of information on apprentices' pay scales suggests that starting rates for apprentices tend to increase with age: at age 16 many first year apprentices are offered wages of £2.00–£3.00 per hour, while those who start their apprenticeship at 17 tend to receive an additional £0.50–£1.00 per hour. Unsurprisingly, apprentice pay rates also tend to vary according to the level of the qualification being pursued. The Learning and Skills Council (LSC) provided us with the results of its survey of hourly pay rates for 16–17 year old apprentices. It reported that for Foundation Modern Apprenticeships/National Vocational Qualification (NVQ) level 2 the average starting rate was £2.57 per hour, rising to £3.05 per hour during learning. Several sectors reported starting rates at £1.14 (equivalent to the minimum training allowance of £40 per week) and average wages during learning below £3.00 per hour (for example, £2.00 for hair and beauty and £2.87 for construction). These rates are significantly below those it reported for Advanced Modern Apprenticeships/NVQ level 3, which varied from £3.24 to £5.20 per hour during learning.

Regional Variation

- 3.27** Participation in education and training for 16–17 year olds varies across the UK, with Scotland and Northern Ireland having higher participation rates than England and Wales. According to the Scottish Executive (2003b) 83 per cent of 16 year olds and 63 per cent of 17 year olds were in FTE in 2000/01. The Department of Education and Department for Employment and Learning in Northern Ireland (2003) reported participation rates for 16 and 17 year olds of 78 and 66 per cent respectively in

2002/03. These figures compare with 73 per cent and 59 per cent respectively in England (DfES (2003c)), and 72 per cent and 59 per cent in Wales (Welsh Assembly Government (2003)).

As Table 3.2 shows, there is little variation within the English regions in terms of overall participation in education or training, but there are marked differences in the routes chosen. Young people in the north of England are less likely to be in FTE but more likely to be in GST compared with those in the south of England.

Table 3.2

Participation in Education and Training by Region in England, 2000

Government Office regions	Percentage of age group in FTE		Percentage of age group in GST	
	Age 16	Age 17	Age 16	Age 17
North East	65	52	15	16
North West	68	55	11	14
Yorkshire and the Humber	67	53	11	13
East Midlands	69	57	9	11
West Midlands	69	57	10	11
East of England	75	61	7	8
London	77	63	4	6
South East	74	62	6	8
South West	73	61	7	11
England	71	58	8	10

Source: DfES (2002b).

3.28 Unfortunately, small sample sizes prevent an examination of national data to consider regional pay rates, but it seems likely that the regions having the highest percentage of jobs benefiting from the minimum wage (North East England, Wales and Northern Ireland) will on average have lower rates of pay for 16–17 year olds.

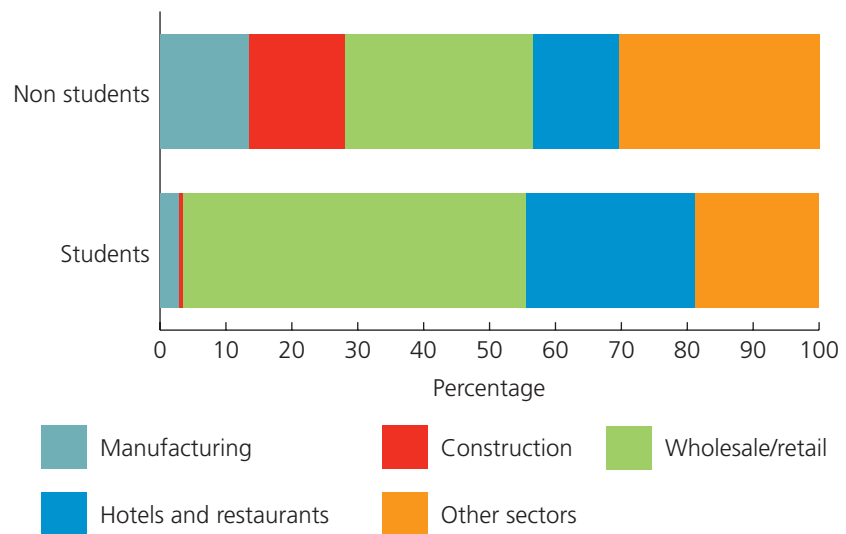
Sectors Employing 16–17 Year Olds

3.29 Employment of 16–17 year olds is concentrated in a narrow range of sectors, with the retail sector employing the largest number. Figure 3.13 demonstrates a clear difference in the sectoral employment of those in FTE compared with those not

in FTE. Over half of 16–17 year old students with jobs are employed in the wholesale and retail sector and a quarter work in hospitality. Over a quarter of those not in FTE work in the manufacturing and construction sectors, compared with fewer than 4 per cent of those in FTE. For 16–17 year olds not in FTE the hospitality and construction sectors are becoming increasingly important sources of employment, while the manufacturing sector is decreasing in importance.

Figure 3.13

Employment by Industry Sector of 16–17 Year Olds, Autumn 2002–Summer 2003



Source: LFS, Autumn 2002–Summer 2003.

Incentives to Remain in Education or Training

3.30 Government initiatives, including financial incentives, have an important role to play in encouraging the pursuit of education or training post 16. The Government’s evidence reported that ‘the overarching objectives for 16–17 year olds are to increase the proportion achieving NVQ level 2 and progressing to NVQ level 3 by raising their participation in an appropriate course of education or training. This includes activating vulnerable young people by ensuring they receive the financial support and the services they need to improve their opportunities through education or training.’

- 3.31** Education is a devolved matter, but DfES and the devolved administrations share the aim of moving away from age 16 being a traditional cut-off point in education and encouraging young people to continue to learn. In England a Working Group on reform of the education system for 14–19 year olds is expected to make final recommendations to the Government in Autumn 2004. The Scottish Executive is looking to introduce more flexibility into the curriculum, and the curriculum in Northern Ireland is also being reviewed. The Welsh Assembly Government (2002) has launched proposals for reforming the learning pathways of 14–19 year olds.
- 3.32** Education Maintenance Allowances (EMAs) will be rolled out across the UK from September 2004 to encourage young people to continue in FTE post 16. The Government expects the national roll-out to increase participation in post-compulsory education in England overall by 3 percentage points. Weekly payments paid direct to the student are related to parental income and the Government plans weekly payments of £30 for family annual household pre-tax incomes of up to £19,000, £20 for families in the £19,000 to £23,000 band and £10 for household income of up to £30,000. There will also be retention bonuses. The roll-out across the UK follows pilot EMAs in parts of England and Scotland. The Government's evidence reported that in the English pilot areas EMAs raised the participation of eligible young people in further education by 5.9 percentage points and were particularly effective at activating those previously not in education, employment or training (the NEET group).
- 3.33** The main route for 16–17 year olds to undertake vocational training in the workplace is through government apprenticeship schemes. Separate programmes operate in England, Scotland, Wales and Northern Ireland and apprenticeships are generally available at either level 2 or 3, except in Scotland where only level 3 is available¹. The overwhelming majority of level 3 apprentices (over 95 per cent of level 3 Modern Apprentices in England and Scotland) are employed and receive a wage, but a lower percentage of level 2 apprentices have employed status (about 75 per cent in England).

¹ The government schemes treated as apprenticeships for minimum wage purposes are: Foundation Modern Apprenticeships (level 2) and Advanced Modern Apprenticeships (level 3) which operate in England; Skillseekers (level 2 or 3) and Modern Apprenticeships (level 3) in Scotland; Foundation Modern Apprenticeships (level 2) and Modern Apprenticeships (level 3) in Wales; and Jobskills Traineeships (level 2) and Jobskills Modern Apprenticeships (level 3) in Northern Ireland.

- 3.34** Participants on GST who do not have employed status receive the Minimum Training Allowance (MTA) from public funds. The Government's evidence describes the MTA as 'the rate set by government as the minimum weekly payment to trainees, both waged and non-waged. For employed trainees the MTA acts as a floor for employers' weekly wages for trainees.' Currently the weekly MTA for apprentices is £40 in England and Northern Ireland, £50 in Wales and £55 in Scotland. In England the Local Learning and Skills Councils can require trainees to be paid more than the level of the MTA although only a minority have done so.
- 3.35** Apprentices on GST programmes are expected to be employed unless there are specific factors preventing employment. The LSC (2003) states that it 'expects employers to contribute to the costs of their learner's learning. It is assumed that, generally, the costs of wages or learning allowances for all learners on WBL [work-based learning] will be met by employers'. Some flexibilities exist in the system, however, and the LSC may decide to fund the costs of allowances for the whole, part or none of the programme (e.g. for those with special needs). Where employers do not meet the full cost of allowances they are encouraged to top the allowance up above the minimum to reflect the learner's contribution to productivity.
- 3.36** Separate schemes operate in England (Entry to Employment), Scotland (Get Ready for Work), Wales (Skill Build) and Northern Ireland (Access) to help young people not immediately able to enter a government apprenticeship programme or other employment. They are designed to help young people achieve basic skills; we refer to these schemes as 'pre-apprenticeship programmes'. In England around 10 per cent of participants have employed status but it is rare for participants in Scotland, Wales or Northern Ireland to have employed status. Participants receive the MTA of at least £40 per week.

Minimum Wages in Other Countries

- 3.37** Before weighing up the advantages and disadvantages of a minimum wage for 16–17 year olds, it is appropriate to consider how other major countries with a National Minimum Wage treat 16–17 year olds. Specifically we have looked at the minimum wage systems in Australia, Belgium, Canada, France, Ireland, the Netherlands, New Zealand, Spain and the United States.
- 3.38** All of the countries examined have a minimum wage for 16–17 year olds. Greece, Portugal, Spain and most Canadian jurisdictions entitle 16–17 year olds to the adult minimum wage. This age group is also entitled to the adult rate in the United States and France after a limited period (although in France separate rules apply to trainees). Other countries make provision for 16–17 year olds to receive a proportion of the adult rate, based either on their age or training status.
- 3.39** It is difficult to draw detailed conclusions from other minimum wage systems given the diverse education and training systems and the different ages when young people become active in the labour market. Appendix 3 contains more detailed information on the minimum wages for 16–17 year olds in these selected countries. We focus here on the main points to emerge from recent debate or research.
- 3.40** In Australia and Canada recent discussion on the treatment of young people under their minimum wage systems has been driven by the need to ensure compatibility with age discrimination legislation. The Australian Industrial Relations Commission considered replacing junior minimum wage rates but found there were no feasible non-discriminatory alternatives; junior rates were retained on the grounds that their removal would have a detrimental impact on youth employment and would damage young people's longer-term prospects. In Canada, however, there has been a marked trend towards the repeal of lower minimum wages for young people since the introduction of the Charter of Rights and Freedoms in 1982, which prohibited discrimination on the basis of age.

- 3.41** In Ireland a minimum wage system was introduced in April 2000 and employees under the age of 18 are entitled to 70 per cent of the adult rate. It was considered that this level struck a balance between ensuring that young people are not attracted out of the education system prematurely and preventing exploitation of 16–17 year olds who enter the labour market. In the Netherlands, while the authorities believe that young people's participation in the labour market is driven primarily by the business cycle rather than by wage levels, concern that high wage levels could encourage youngsters to leave school early has led them to set young people's minimum wages at a low level compared with other countries. (The minimum wage for 16 year olds is 34.5 per cent of the adult rate, and for 17 year olds it is 39.5 per cent.)
- 3.42** In the last few years there has been significant reform to the minimum wages for 16–17 year olds in both New Zealand and Spain. In New Zealand the minimum wage for 16–17 year olds has been increased from 60 to 80 per cent of the adult rate, resulting in a 41 per cent increase in the minimum wage for this age group over a two year period. A draft research paper by Hyslop and Stillman (forthcoming) modelling the effects of this reform indicates that '16–17 year-olds increased their hours worked by 10–15 per cent following the minimum wage changes. However, we do find some evidence of a decline in educational enrolment, and an increase in unemployment and inactivity, although these results depend on the specification adopted.' In Spain 16–17 year olds have been entitled to the adult rate since 1998; previously there was a single rate specifically for 16–17 year olds although separate rates for each of these age groups existed prior to 1990. There is some evidence that these reforms have had an adverse impact on employment of 16–17 year olds in Spain (Dolado *et al.* (1996), Güemes and Domínguez (2001)).
- 3.43** Overall, our conclusions from international research are that all the countries with National Minimum Wages apply them to 16–17 year olds, and that where the minimum for 16–17 year olds is set at a modest level, significantly below the adult rate, there is little evidence of adverse effects either on employment or on participation in education.

Stakeholders' Views

- 3.44** We received evidence from employers, trade unions, youth organisations, careers advisors and others about the advantages and disadvantages of a minimum wage for 16–17 year olds. The overwhelming majority of respondents supported the introduction of a minimum wage for this age group, though employers were divided on the issue. Some employers believed it would be beneficial provided it was set at a cautious level; others opposed the idea, believing it risked reducing employment and training opportunities for 16–17 year olds.
- 3.45** Trade unions and youth organisations in particular argued strongly for the introduction of a minimum wage for 16–17 year olds. Some believed that they should be entitled to the adult rate, while others suggested they should receive a proportion of the adult rate. In oral evidence the Union of Shop Distributive and Allied Workers (Usdaw) commented that its primary concern was to establish the principle of a minimum wage for 16–17 year olds set at a realistic rate, and the Trades Union Congress (TUC) stated that once the minimum wage for 16–17 year olds had been established the Commission should seek to raise its real value in future years.
- 3.46** Trade unions and youth organisations commented that all the arguments for originally introducing the National Minimum Wage applied equally to 16–17 year olds and that a minimum wage for this age group was needed to prevent exploitation. They also highlighted that the initial introduction of the minimum wage had not produced the negative impacts predicted in some quarters. They reported a move away from age-related pay and predicted that a minimum wage would neither reduce the demand for 16–17 year old employees nor encourage early entry into the labour market. They also believed that students would benefit from being able to afford to reduce the number of hours spent in part-time jobs. In addition it was noted that most of this age group were ineligible for means tested benefits and many needed money to spend on necessities and to contribute towards family income. Furthermore it was suggested that a minimum wage for 16–17 year olds would help increase awareness of other employment rights for this age group.

“ It is the opinion of the SBC that a minimum wage will effectively price this age group out of the jobs market and condemn them to unemployment or jobs without training. ”

**Small Business
Council evidence**

“ It cannot be right that 16/17s are left unprotected against wage exploitation whilst adults enjoy the protection of a floor on wages. Workers in this age group are commonly considered a vulnerable group in the labour market. ”

TUC evidence

“ A West of Scotland CAB reports of a 17 year old male client who works 35 hours per week in a kilt factory. He is paid £2.30 an hour and came to the bureau to find out what the NMW was. ”
Citizens Advice Scotland evidence

“ It will be difficult to set a realistically low rate for 16 and 17 year olds if they were to be brought into the net. It will be more difficult still to prevent their rate catching up with the other rates in much the same way as the rate for the 18–21 group has caught up with the 22+ group. ”
Unquoted Companies Group evidence

- 3.47** A number of other organisations, such as careers advisory services and educational bodies, also believed a minimum wage was needed to protect 16–17 year olds; but several commented that it should not be set too high, in order to avoid enticing young people away from education and training. It was also suggested that a minimum wage would help provide guidance to employers on a minimum acceptable level of pay.
- 3.48** Employer organisations had mixed views on the implications of a minimum wage for 16–17 year olds. The CBI, British Hospitality Association (BHA), British Retail Consortium (BRC) and the Association of Convenience Stores, for example, supported a minimum wage for this age group in principle, provided it was set at a cautious level and not automatically updated in line with other minimum wage rates. Representatives from both the retail and hospitality sectors commented that it could prevent exploitation by disreputable traders and remove the negative impact on the image of their sectors as a whole, caused by a relative minority of employers paying very low wages.
- 3.49** The BRC reported that only 13 per cent of small retailers and 1 per cent of large retailers in its survey paid below £3.00 per hour for 16–17 year olds. BRC suggested that a rate of £3.10 per hour would be an appropriate initial level for a minimum wage for this age group and that it would have a minor impact on only a small percentage of small retailers. BHA, supported by Business in Sport and Leisure, recommended an initial rate of £2.80 per hour to set a marker and give a degree of flexibility. The CBI stated that most members who employ 16–17 year olds pay them rates above £3.00 per hour but noted examples where a rate of £3.00 per hour would have a significant impact on some members.
- 3.50** Other employer organisations opposed the principle of a minimum wage for this age group, for example the British Chambers of Commerce, the Association of Licensed Multiple Retailers, the Small Business Council and the Unquoted Companies Group. They believed that wage levels should be left to market forces and that a minimum wage risked reducing employment or training opportunities for 16–17 year olds.

- 3.51** Representatives from the hairdressing sector were the most concerned about the potential impact of a minimum wage for 16–17 year olds. They focused on the long period of training needed before an apprentice became an economic member of the salon team. A joint submission from the Hairdressing Employers Association (HEA) and the National Hairdressers' Federation (NHF) expressed concern that if a minimum wage for 16–17 year olds were introduced with only a one year exemption for apprentices, trainees would not have achieved any meaningful acquisition of skills before becoming eligible for the minimum wage and 'salon owners could not bear such additional costs and would dramatically curtail the employment of apprentices'.
- 3.52** The CBI commented that young people often contribute little to the business during apprenticeships and argued that the present exemption from the minimum wage for apprentices aged below 19 should be retained, since young people who leave school to start a Modern Apprenticeship are completing their education. The TUC agreed that, at least initially, the current exemption should be kept. The LSC, however, recommended that apprentices should be exempt from the minimum wage only during their first year on the grounds that a full exemption would lower the perception of Modern Apprenticeships to 'one of a low pay, low value option', further reducing the programme's standing and the number of applications. The LSC was also concerned that some Modern Apprentices leave before completion to take better paid jobs. A number of organisations (such as the Equal Opportunities Commission and UNISON/YMCA England) believed that the exemption for apprentices should be removed. Some argued that apprentices were being used by employers to secure cheap labour. It was also suggested that equal treatment would avoid encouraging young people to opt for full-time employment without training.

A Minimum Wage for 16–17 Year Olds: Assessment of Evidence

3.53 In this section we consider reasons for introducing a minimum wage for 16–17 year olds before assessing the potential impact of a minimum wage on participation decisions at age 16 and on the provision of employment and training opportunities. We draw on consultation responses and our research projects. As noted in Chapter 1, the research projects which we commissioned are listed in Appendix 2 together with a summary of their findings.

‘ [From a survey of jobs for 16 and 17 year olds ‘with no formal training’] In our survey the ... lowest rates were: A Riding School Assistant ... on £1.25 an hour. A trainee Painter and Decorator ... on £1.25 an hour. A Finisher/Office Junior in a ... printing factory on £1.50 an hour. A Car Valet at a fleet operations unit ... on £1.50 an hour. ’

Usdaw evidence

The Case in Favour

3.54 A minimum wage for this age group would address the cases of full-time jobs offering low pay and few development prospects. While it is not possible to identify the scale of the problem, trade unions, youth organisations and citizens advice bureaux provided a large number of examples of such jobs. For example, Citizens Advice Northern Ireland reported that ‘recent Social Policy evidence from CABx indicates that many 16–17 year old employees are working full-time for as little as £1.50 per hour’. Usdaw carried out a survey of ‘jobs with no formal training’ and submitted details of 135 full-time vacancies available to 16–17 year olds and offering wage rates less than £2.85 per hour. Over half of the examples offered wages of no more than £2.25 per hour. Usdaw reported that ‘our survey proves conclusively the widespread existence of low pay among 16 and 17-year-olds in this country. We stopped our findings at just over 100. If we had carried on looking we would have found more.’

3.55 Citizens Advice referred to examples of some 17 year old workers being dismissed when they reach the age of 18 and become eligible for the youth Development Rate. Citizens Advice suggested that the likelihood of such dismissals would be greatly reduced by the existence of a statutory minimum wage for 16 and 17 year olds equal to, or even slightly below, the youth Development Rate.

3.56 We also received suggestions that a minimum wage for 16–17 year olds could help increase incentives for the NEET group to obtain employment, and help improve awareness of other employment rights for this age group. The GMB stated that ‘the current lack of minimum wage coverage for 16 and 17 year olds not only exposes them to pay rates as low as £1.50–£2 an hour, it also encourages the misconception that they are generally “without rights”. This makes 16 and 17 year olds vulnerable to multiple exploitation in the workplace. Such exploitation risks leaving young people socially excluded and disillusioned with the world of work.’

3.57 We view the main reasons for providing a minimum wage for 16–17 year olds as being to prevent exploitation and to encourage young people to view themselves as being valued members of the workforce. But we need to balance these positive aspects against the possibility that a minimum wage might encourage young people to leave FTE or training schemes and seek full-time employment, to the detriment of their longer-term prospects. We would also be concerned if a minimum wage were to discourage employers from offering good quality training, or to reduce employment opportunities available to young people (including part-time jobs for those still in FTE). We now assess these potential adverse affects.

Impact on Incentives to Participate in Full-Time Education

3.58 To understand more about the impact of wage levels on the labour market participation decisions of 16–17 year olds we commissioned quantitative research from Dickerson and Jones at the Warwick Institute for Employment Research and from Frayne and Goodman at the Institute for Fiscal Studies. The British Youth Council (BYC) was also commissioned to explore with young people the factors affecting their labour market decisions.

3.59 Dickerson and Jones (2004) analysed data from the YCS and found that ‘those seeking work and those remaining in education after the end of compulsory education form two rather distinct groups. Moreover, compared to other factors, wages would appear to have little influence on the allocation between these two groups.’ Dickerson and Jones calculated the

‘The Association supports the notion of a minimum wage, but is concerned that anything over, say, £3.60 an hour might prove to be counter-productive.’

Association of Teachers and Lecturers evidence

predicted impact of a minimum wage on education and employment participation under a range of assumptions regarding the distribution of ability. Using an individual's GCSE attainment as their measure of ability, they found that 'a minimum wage set between £2.50 and £4.00 will have negligible effects on education participation, irrespective of whether or not young people on Government supported training programmes are covered'.

- 3.60** Frayne and Goodman (2004) used data from the pilot EMA areas in England to estimate an econometric model of work and schooling decisions among 16–17 year olds. Their estimates suggest that, if the labour market is monopsonistic rather than perfectly competitive, 'the numbers of young people switching activities as a result of a minimum wage [of £3.00 or £3.50 per hour] is likely to be small, and in particular, we find little evidence that many will leave school altogether'.
- 3.61** BYC (2004) found that a rate of £3.00–£3.50 per hour would have little impact on young people's decisions on whether to remain in education post 16. BYC also reported that young people's opinions on how much they would have to earn to be persuaded out of FTE ranged from £5.00–£12.00 per hour.
- 3.62** Some employer organisations commented that a minimum wage for 16–17 year olds might encourage some young people to leave FTE. But responses from educational bodies and careers advisory services supported the introduction of a minimum wage for this age group to prevent exploitation, while noting it should not be set so high as to reduce incentives to continue in FTE.
- 3.63** We are mindful that a national EMA model will be rolled out across the UK from September 2004 and that its relationship with the possible introduction of a 16–17 year old rate in October 2004 needs to be considered. We were reassured by the views of the cross-government group examining the overall system of financial support for 16–19 year olds that a cautiously set minimum wage for 16–17 year olds introduced in October 2004 was not expected to undermine the roll-out of EMAs.

A key consideration is that in 2004/05 the maximum financial support to parents of a young person in post-16 education will amount to about £80 per week on average across the year (from EMAs, Child Benefit, the maximum tax credit per child and the family element of Child Tax Credit). Households where the parents receive the maximum financial support and the student spends ten hours per week in paid employment will derive a level of income similar to households where the 16 or 17 year old works full-time for around £3.00 per hour.

- 3.64** The evidence therefore leads us to conclude that a cautiously set minimum wage for 16–17 year olds would not discourage participation in FTE. We also believe, like the cross-government group examining financial support for 16–19 year olds, that it could coexist with the roll-out of EMAs across the UK.

Impact on Incentives to Participate in Training

- 3.65** While it is extremely difficult to obtain reliable data, the information we have gathered suggests that at least 145,000 16–17 year olds have left school and are working towards a vocational qualification. The vocational training available to young people can take a variety of forms. We consider here the possible impact of a minimum wage on those on apprenticeships; those on preparatory schemes such as Entry to Employment; and those studying for NVQs or Scottish Vocational Qualifications (SVQs), either as part of a government-supported scheme or independently.
- 3.66** Figures from the LSC and the devolved administrations suggest that in Summer 2003 there were about 110,000 16–17 year olds participating in government programmes treated as apprenticeships for minimum wage purposes. (This number is considered to be more reliable than the lower figure indicated by LFS data.) Around two-thirds were on a level 2 scheme, such as a Foundation Modern Apprenticeship, although many of those on a level 3 scheme would initially be working towards a lower level qualification. Payne (2003b) found that among those on Advanced Modern Apprenticeships at age 16–17 only a third were working for level 3 qualifications.

- 3.67** There are no reliable aggregate data on wage levels for apprentices but, as we have seen, they are typically paid less than other employees of the same age and some receive only the MTA. Many young people are prepared to accept low wages while they are training. Evidence from the LSC, based on draft findings of research by Evaluation Research Strategies Ltd, commented that 'on the whole, current apprentices were surprisingly happy with the current minimum level, often stating that they were only training at the moment and were resigned to the fact that £40 was in the majority of cases the most they could expect'. However, the same groups of young people had high expectations that earnings would rise quickly as they became more productive and therefore of value to the employer. Payne (2001a) found no evidence that lower pay discouraged young people from staying in GST. Druker *et al.* (2002), however, suggested that 'low rewards for apprentices and young people – and the long time scale before more significant returns can be expected – contribute significantly to the high attrition rate amongst young entrants to the [hairdressing] industry'.
- 3.68** For the purposes of the present minimum wage rules applying to those aged 18 and over, apprentices are either workers taking part in the specified government training programmes listed in footnote 1 or workers who are employed under a contract of apprenticeship. No information is available on the number of 16–17 year old workers with contracts of apprenticeship outside GST, although liaison with careers services suggests that the total will be low. We have no reason to believe that incentives for this group will differ from those for apprentices on GST.
- 3.69** In Summer 2003 there were about 25,000 participants on pre-apprenticeship programmes such as Entry to Employment in England and Get Ready for Work in Scotland. As the overwhelming majority of participants do not have employed status they would therefore be ineligible for any minimum wage and would continue to receive the MTA. The existence of a minimum wage for 16–17 year olds is unlikely adversely to affect participation on these schemes given that the target group is young people who need to develop the skills necessary to become attractive to employers. Indeed a minimum wage

could have a slight positive impact, should it encourage 16–17 year olds to develop key skills in order to gain employment.

- 3.70** In England and Wales just over 10,000 16–17 year olds are on GST leading to NVQ level 2 or 3 (outside of apprenticeships), of whom 45 per cent have employed status. (In Scotland and Northern Ireland 16–17 year olds working to NVQ/SVQ level 2 or 3 on GST are part of programmes treated as apprentices for the purposes of the minimum wage.) NVQ learning provides opportunities for young people not undertaking government apprenticeship programmes to achieve qualifications to enhance their employment prospects.
- 3.71** In addition a number of 16–17 year olds will be working towards NVQs/SVQs or other qualifications outside of GST. According to the LFS, in the four quarters from Autumn 2002 to Summer 2003, an average of about 30,000 16–17 year olds were working towards a qualification while in full-time or part-time employment. On average a further 15,000 16–17 year olds were in part-time education with no job.
- 3.72** A minimum wage for 16–17 year olds could potentially discourage young people from studying towards NVQs or other qualifications. We note, however, that a cautiously set minimum wage for 16–17 year olds is not expected to discourage participation in FTE and that in general lower pay does not discourage young people from staying in GST. In addition many 16–17 year olds on GST do not have employed status and are currently willing to participate in return for the MTA. BYC (2004) reported that young people would prefer to ‘join a training programme such as an apprenticeship than take a job with either £3 or £3.25 an hour. They believed that training would be better in the long run and they would be willing to sacrifice low rates of pay for better rates in the future.’
- 3.73** We therefore conclude that there are few signs that existing low wage rates discourage young people from undertaking apprenticeships. Nor does it seem likely, judging from past experience and our commissioned research, that a cautiously set minimum wage would tempt them away from other forms of vocational training.

“ If government wishes to encourage more young people to undertake vocational education in the workplace it should consider reviewing the financial support given to young people who are learning in the workplace as well as the classroom. ”

CBI evidence

3.74 There are suggestions, however, that the tax and benefits system favours 16–17 year olds in FTE and discourages some young people from undertaking vocational training. The Government is aware of this concern and it is one of the issues being considered by the cross-government group examining the overall system of financial support for 16–19 year olds. We have worked closely with the cross-government group over the last year and are pleased that it is looking at ways to remove the worst anomalies in support for 16–17 year olds in FTE compared with those in unwaged training, and to improve the level of support available for young people. We look forward to seeing its recommendations, which are expected in Spring 2004.

Impact on Work Incentives

3.75 As we have stated in previous reports, our preference is for all young people to remain in education or high quality training schemes until at least the age of 18. That is why the role of a minimum wage in providing incentives to work plays a much smaller part in our discussion of 16–17 year olds than in our consideration of older workers. But we recognise that, at least at present, some 16–17 year olds are unlikely to pursue education or training despite measures to raise the quality and profile of the vocational route and to improve support and advice services for young people. This group represents around 300,000 16–17 year olds, or just under 20 per cent of this age group. According to the LFS, in the period from Autumn 2002 to Summer 2003, on average approximately 130,000 16–17 year olds (8 per cent) were in employment and not working towards a qualification, of whom about two-thirds were working full-time. In addition an average of about 170,000 (11 per cent) were in the NEET group, evenly split between the unemployed and the inactive.

3.76 For young people in employment, a minimum wage could help prevent exploitation, reaffirm commitments to the labour market and make them feel more valued members of the workforce. A minimum wage might also act as an incentive to encourage some of the NEET group to join the labour market, or to increase efforts to find a job. We recognise, however, that many young people in this position will be facing very complex issues

and that their circumstances may be such that the introduction of a minimum wage would still not persuade or enable them to take a job – for example if they have caring responsibilities. Evidence from Centrepoin for our fourth report also indicated that for those individuals living away from home ‘the least they would be prepared to and could afford to work for is £6.50’.

- 3.77** We noted earlier that most young people who remain in FTE until 18 will have had a job at some point during their time in FTE. We believe that these part-time jobs can be a very valuable introduction to the world of work, provided that young people are not working for so many hours that it interferes with their studies. It is not easy to determine, however, whether a minimum wage would encourage students to increase their hours of work; or conversely whether, by enabling them to achieve a target income from fewer hours, they might reduce the hours worked.
- 3.78** The Learning and Skills Development Agency (LSDA) concluded that ‘an extension of the NMW [assuming it is set in the range of £3.00 to £3.50 per hour] is unlikely to have damaging consequences for the participation of young people in learning or their prospects of success’. LSDA commented that evidence from the EMA pilots ‘shows that in most cases young people were not simply seeking to maximise their income, but were more pragmatic in their approach.... This is consistent with a more general finding from our work on participation; that while finance is an important factor for some people there is little evidence that it is as powerful a determinant of participation decisions as is popularly supposed.’ LSDA also suggested that on balance the evidence indicates that increased rates of pay might reduce the number of hours young students spend in part-time employment.
- 3.79** On the basis of interviews with a small number of 16–17 year olds working for the case study organisations, Neathey *et al.* (2004) concluded that ‘the introduction of an NMW that resulted in a pay increase would lead a minority of students to try to increase the hours worked. However, for most, hours were determined by other factors such as schooling or employer

requirements so an increase in pay would not have an impact on hours worked.’ She also commented that ‘the 16–17 year olds who participated in the study appeared to have limited awareness of local wage rates and the link between pay and the decision to work at a particular establishment was often not a clear one.... key reasons for accepting a post were often more to do with convenience or social networks.’

- 3.80** Frayne and Goodman (2004) found that, if the labour market is monopsonistic, a minimum wage of £3.00 or £3.50 per hour would lead to a slight shift towards young people combining school and employment, although the increase in numbers did not appear to be significant and the authors noted that further work is required to test the robustness of these results. The results from BYC (2004) are inconclusive on whether a minimum wage of £3.00–£3.50 would change the number of hours spent by students in paid employment.
- 3.81** In summary, the effects on work incentives are likely to be slight. It seems unlikely that a minimum wage would encourage students to increase the hours they work to a level which would damage their studies. Among those not in FTE, there may be a small positive impact on incentives to work.

Impact on Employment and Training Opportunities

- 3.82** Our examination of the likely impact of a minimum wage on young people’s decisions on education, training and employment suggests that there is unlikely to be any detrimental effect, and there may be a slight positive impact on incentives to work. We must now consider the impact of a minimum wage on the demand from employers for youth labour, and on their willingness to offer training opportunities. We begin by considering employers’ reasons for employing 16–17 year olds before assessing the potential impact of introducing a minimum wage for this age group.
- 3.83** We have already seen that the majority of 16–17 year old workers – particularly those who are still in FTE – are to be found in the retail and hospitality sectors, with the construction sector also employing a significant number of those who work

full-time. The retail and hospitality sectors are likely to be particularly attractive to those 16–17 year olds seeking to combine education with part-time jobs as they offer flexible working patterns, and students tend to be available to work during the peak periods for these sectors or when older staff prefer not to work. Neathey *et al.* (2004) found that among firms employing this age group in the wholesale/retail and hospitality sectors the ability to work the hours needed was an important consideration. Similarly Heyes (2004) found that providing temporary cover or seasonal employment was mentioned by almost three-quarters of the hospitality organisations and more than half of the retail firms he surveyed. By contrast, both Neathey *et al.* and Heyes found that in the construction sector the ability to develop 16–17 year olds to take on more senior roles in the future was a key factor. This is also typical of the hairdressing sector.

3.84 These findings feed through into the two broad models of employment for 16–17 year olds identified by Neathey *et al.*: young people were either employed in trainee positions or they were in jobs requiring little or no formal training, with the latter group consisting principally, but not exclusively, of those who were working part-time while continuing their studies at school or college. In retail outlets part-time workers and students tended to be involved in the sale of goods such as food or clothing, but where the outlet offered services such as vehicle maintenance the young employees were more likely to have trainee roles.

3.85 While employers value the flexibility offered by many young workers, and the scope to develop them for longer-term employment, a number of concerns were also expressed. Consultation responses from employers highlighted young people's greater inexperience; their lower productivity; legal restrictions on their roles (e.g. prohibitions on selling age-restricted products without supervision and health and safety rules); and the need for greater supervision. Small firms attending focus groups organised by the Small Business Service highlighted retention problems, concerns about the lower motivation of 16–17 year olds, the lack of a track record and

“ Students, whether at school or university, want part-time jobs to enhance income and the industry needs part-time workers to cover, for example, restaurant shifts, banqueting requirements – in short, mutual advantage and flexibility. ”

British Hospitality Association evidence

Some firms did not make age-related distinctions in respect of wage offers. Other firms had age-related starting wages, but were prepared to pay certain employees considerably more than the basic wage if they were regarded as particularly 'valuable' or hard to replace. A tightening of local labour markets in some areas and consequent upward pressure on wages had also reduced the extent to which young workers were regarded as cheap.

Heyes, 2004. *Firms' Attitudes to Employing 16 and 17 Year Olds*. Research Report for the Low Pay Commission.

Workers in this age group are not employed in jobs with lower levels of skill and responsibility than their older counterparts, nor are they more likely to be receiving training, unless they are on an apprenticeship scheme. However, employers often turn to them where low pay rates, poor prospects and lack of training and development opportunities give rise to recruitment and retention difficulties.

GMB evidence

While ABTA agrees that there should be a minimum wage for 16–17 year olds we believe it should be measurably lower than that of 18+ year olds. If the difference is not significant it may result in employers opting to pay the small difference to employ a more experienced worker which may be a disadvantage to young workers.

Association of British Travel Agents evidence

the cost and time of training this age group as justification for paying them lower wages at the outset compared with more experienced, skilled and productive workers. A survey by the BHA of its own members and members of the Restaurant Association found that the most common reason for paying 16–17 year olds less than older workers was that, although younger workers were performing the same tasks, they were less skilled or experienced.

3.86 Neathey *et al.* (2004), however, found that ‘young workers were not generally seen as less productive than their older colleagues, except in those cases where they were in trainee roles’. She noted that while some firms believed that young people required more direct management and supervision, others highlighted their relative flexibility and quickness to learn. Heyes (2004) reported that 16 and 17 year olds were rarely considered for positions involving supervisory responsibility and noted that some retailers exercised caution in the extent to which they allowed young employees to interact with customers.

3.87 It is difficult to estimate the likely impact of a minimum wage for 16–17 year olds on demand for their labour, or to assess whether any fall in demand would lead to an overall reduction in employment or to a corresponding increase in the employment of older workers. We received mixed evidence from our consultation responses. Some argued that 16–17 year olds were as productive as older workers and were specifically recruited for their flexibility and compatibility with the employer’s brand or image. If this is the case then employers are likely to continue to employ them. Others argued that employers would either reduce total employment or substitute towards older workers.

3.88 Discussions with individual employers in oral evidence sessions and during our visits suggested that if there remained a significant difference between 16–17 year olds’ wages and those of older workers, then employers would continue to employ young people. But if the differential narrowed significantly, it would become more economical to substitute towards older workers. Perhaps because this age group make

up a very small proportion of the overall workforce, there was little suggestion that the introduction of a minimum wage would have a significant business impact, provided it was introduced at a cautious level.

3.89 We commissioned both quantitative and qualitative research to try to gauge employers' reactions to a minimum wage. The research by Frayne and Goodman (2004) attempts to set bounds on the possible effect of a minimum wage for 16–17 year olds. They conclude that a minimum wage of £3 could reduce employment by around 6 per cent if markets are perfectly competitive, but could increase it slightly in the monopsonistic case, with the true outcome likely to lie between the two. Frayne and Goodman note that 'its effects will depend both on the structure of the labour market for this group of workers, how far up the wage distribution any new minimum would bite, and on how responsive firms and young people are to changes in the financial incentives facing them'.

3.90 Neathey *et al.* (2004) reported that the 'majority of the case study employers were broadly favourable to the concept of an NMW for 16–17 year olds and some saw potential business benefits in ... respect of their ability to recruit this age group. However, two of those with young workers in trainee roles were opposed to a minimum wage for this group and felt that they would be unable to provide trainee positions if an NMW was introduced.' Heyes (2004) found similar results. In general employers were not opposed to a minimum wage for 16–17 year olds but concern was expressed by some of those providing training. We now focus on the potential impact of a minimum wage on training opportunities.

3.91 Evidence from employers and our commissioned research highlighted that many apprentices are not considered to be fully productive members of the workforce and that a high minimum wage for 16–17 year olds could reduce employers' willingness to offer such vocational training. Particular concern was expressed by the hairdressing sector. The CBI, NHF and HEA argued that the introduction of a minimum wage for 16–17 year olds would reduce the provision of apprenticeship

If a minimum wage were introduced at £3.00 this suggests that employment hours among 16/17 year olds could be cut by around 6 per cent. It is important to remember that this is not a prediction of the reduction that will occur if a NMW is introduced. Rather it is a bound on the reduction that could occur if labour markets are fully competitive. If firms are able to absorb even part of the costs of higher wages the effects will be far more moderate.

Frayne and Goodman, 2004.
The Impact of Introducing a National Minimum Wage for 16 and 17 Year Olds on Employment and Education Outcomes.
Research Report for the Low Pay Commission.

opportunities, unless the exemption from the minimum wage for apprentices aged below 19 was retained. The Welsh Assembly Government expressed concern that a minimum wage for 16–17 year olds, which applied to apprentices, could make employers less likely to offer employed status to apprentices of this age group (since those who are not employed are not entitled to the minimum wage).

- 3.92** These concerns may also extend to other forms of training. A requirement to pay a minimum wage could discourage employers from taking on participants on pre-apprenticeship schemes. Employers might also be less willing to top up the MTA of participants who have non-employed status in case this might be seen as creating a contract of employment and thus entitlement to the minimum wage.
- 3.93** Not all training leads to formal qualifications. Research by Kitching and Blackburn (2003) commissioned by the Small Business Council highlighted the diverse ways in which workforce learning takes place within the small business context and noted that training provided by smaller employers often does not involve formal qualifications or participation in government initiatives. Similar points were raised in the focus groups organised by the Small Business Service and we would not wish a minimum wage for 16–17 year olds to diminish genuine opportunities for young people to learn a skilled trade or profession.
- 3.94** In summary, the evidence suggests that some employers positively opt to employ 16–17 year olds, perhaps because of their flexibility, their 'fit' with the business's image, or the scope to prepare trainees for progression within the business. But there are also factors which make employers less willing to employ this age group, such as their lower levels of experience and skill, and restrictions on the work they can carry out. The business impact of introducing a minimum wage for this age group is likely to be small, with few employers expressing concern, and the sectoral organisations which represent the principal employers of young people (retail and hospitality) seeing positive benefits provided a minimum wage was introduced at a cautious level.

3.95 While it is difficult to predict the impact of a minimum wage on employment opportunities for 16–17 year olds, on balance we believe that the impact is likely to be small, except in the case of jobs which offer a significant level of training. Given the importance which we attach to high quality vocational training, we therefore believe that the introduction of a minimum wage for this age group would have to be accompanied by some form of exemption to ensure that this was not put at risk.

Recommendations

A Minimum Wage for 16–17 Year Olds

- 3.96** In reaching our recommendations we have balanced the arguments in favour of a minimum wage for 16–17 year olds with the need to avoid harmful effects.
- The case in favour is that it will prevent exploitation. The UK is the only major country where the National Minimum Wage does not offer protection to 16–17 year olds, and we continue to be concerned by evidence of full-time jobs for 16–17 year olds offering very low rates of pay and little or no training. We have also been struck by the views of the retail and hospitality sectors that a 16–17 year old rate could remove the poor images of their sectors caused by employers paying very low rates.
 - But we are concerned to make sure that a minimum wage for 16–17 year olds does not damage the education, training or job prospects of this age group.
- 3.97** Our analysis, commissioned research and consultation responses have led us to conclude in favour. Set cautiously, a minimum wage for 16–17 year olds will not encourage young people to forgo education or training opportunities: there is little evidence that minimum wages have had such an effect in other countries. It may encourage some of those who are not in education, employment nor training to seek work. And set sensibly it will not have a significant impact on the demand for labour. The issue is therefore what a sensible level would be.

“ A small number of local employers do pay very low wages but already many pay at or near the NMW level for 18–21 year olds. Hence a NMW at a lower level is unlikely to have a significant impact on demand for 16 and 17 year olds or training. The loss of any jobs from poor payers unwilling to pay a NMW would be no bad thing anyway. ”

**Confidential response
from a Connexions
Partnership**

“ One client aged 16 applied for a part time job advertised in his local job market at £3.70 per hour. He was successful in obtaining the job and was shocked to discover after two weeks work that his hourly rate was just £1.70. When he queried this amount he was informed that as he was under 18 he was not entitled to the minimum wage. ”

**Citizens Advice Northern
Ireland evidence**

- 3.98** We stated in our fourth report that we wished to consider a minimum wage for 16–17 year olds set at a lower level than the youth Development Rate. We view 16–17 year olds as forming a distinct labour market segment. Some 70 per cent are in FTE, compared with around 50 per cent for 18 year olds, just under 40 per cent for 19–20 year olds and about 25 per cent for 21 year olds. In contrast 1 per cent of those aged 25 and over are in FTE. A clearly distinct approach to setting the National Minimum Wage for this age group is therefore appropriate, in the same way that this age group is treated differently from older workers under the 1998 Working Time Regulations.
- 3.99** We recommended in Chapter 2 that the youth Development Rate should be £4.10 per hour in October 2004 and estimated that about 6 per cent of jobs for 18–21 year olds will benefit. By comparison a minimum wage of £4.10 per hour in October 2004 for 16–17 year olds would be expected to affect over 35 per cent of jobs held by this age group. We have also seen that unemployment rates for young people not in FTE generally fall with age, and that in Summer 2003 over 40 per cent of 16–17 year olds not in FTE were either unemployed or inactive. Evidence of the scarring effect of unemployment (Stewart (2002)) and international evidence that potential adverse effects of minimum wages are more likely to impact on young people than adults (e.g. Organisation for Economic Co-operation and Development (1998)) mean that we must take care to ensure that young people are not priced out of the labour market. We therefore believe that rather than extending the scope of the youth Development Rate there should be a separate rate for 16–17 year olds.
- 3.100** Some consultees questioned whether a 16–17 year old rate would be legal following the implementation of the age strand of the European Employment Directive which will restrict age discrimination in employment and vocational training from October 2006. We believe that there are good grounds for treating 16–17 year olds differently from older workers. We note that the Department of Trade and Industry (2003a) reported that Article 6.1 of the Directive ‘allows Member States’ implementing legislation to permit practices that otherwise amount to direct discrimination where they are objectively

justified by reference to specific aims and are appropriate and necessary. Article 6 contains an illustrative list of the types of differences of treatment that may be justified, including: (a) special conditions on access to employment and vocational training for particular categories of people in order to promote their vocational integration or to ensure their protection.'

In connection with the National Minimum Wage the document reports that 'the Directive expressly envisages that different pay rates might be set for young people in order to promote their vocational integration. Our goal of helping younger workers to find jobs in competition with older workers is consistent with the Directive.'

- 3.101** Data from the ONS, trade unions, employer organisations and research show that the vast majority of 16–17 year olds are paid at least £3.00 per hour and many receive rates around the youth Development Rate, or higher. Taking account of the evidence on wage levels and views from employers on an appropriate level, and bearing in mind that the purpose is to set a wage floor which will deter exploitation, **we recommend a minimum wage should be introduced for 16–17 year olds, set at £3.00 in October 2004.** Trainees, however, tend to receive lower wages and we have noted that an exemption will be needed to ensure that high quality vocational training is not put at risk. We now consider what form the training exemption should take.

Training Exemptions

- 3.102** Currently trainees with employed status are exempt from the minimum wage if they are apprentices under age 19, or under 26 and in the first 12 months of their apprenticeship. Effectively this means that apprentices are exempt for the first 12 months when the minimum wage would otherwise apply. Having reached the view that a minimum wage should be introduced for 16–17 year olds, we needed to decide whether to recommend maintaining the current exemption for all apprentices under age 19 or to opt for a 12 month exemption. We also needed to consider whether the exemption should be extended to cover other forms of training.

- 3.103** While the data available to us are limited, we believe there is a case for treating 16–17 year old apprentices differently from older apprentices by exempting them throughout this period rather than limiting the exemption to 12 months. We have noted that starting rates for apprentices tend to increase with age. The evidence suggests that a one year exemption might pose little disruption to existing pay scales for those apprentices who begin their apprenticeship at 16 and would become eligible for the 16–17 year old minimum wage rate after 12 months. But a one year exemption would also mean that a 17 year old starting an apprenticeship would become eligible for the youth Development Rate after 12 months. A number of pay agreements have rates for second year apprentices significantly below our recommended youth Development Rate for October 2004 of £4.10 per hour.
- 3.104** We have also seen that the majority of 16–17 year old apprentices are working towards a level 2 qualification, such as a Foundation Modern Apprenticeship, rather than more advanced qualifications. As we have noted, pay rates for 16–17 year olds working towards level 2 qualifications tend to be lower than rates paid to those working for more advanced qualifications.
- 3.105** Information on current pay arrangements for younger apprentices, the fact that many 16–17 year old apprentices are still working towards level 2 rather than more advanced qualifications, and recognition that we are breaking new ground, all point to the need for caution. **We therefore recommend the current exemption from the minimum wage for apprentices aged under 19 should be retained.**
- 3.106** Participants on pre-apprenticeship programmes need to develop basic skills to become employed or progress to vocational training. While few participants on these schemes have employed status, we were struck by the argument that participants on pre-apprenticeship schemes should be exempt from the minimum wage on the grounds that employers would be even less likely to offer employed status or to top up the MTA if a minimum wage were payable. **We recommend that**

participants on specified pre-apprenticeship programmes should be exempt from the 16–17 year old rate.

3.107 The impact of our recommendation on other forms of training is likely to be very slight. Our fourth report found that the minimum wage is just one factor among many which influence employers' training decisions. Furthermore, we understand that the courts have given quite a broad interpretation to a contract of apprenticeship, which extends beyond the government apprenticeship schemes. These contracts of apprenticeship would qualify for the proposed exemption from the minimum wage, reducing the need for a wider exemption. And we are concerned that to widen the exemption too far would risk creating loopholes for less conscientious employers. We therefore advise against a wider exemption beyond apprenticeships and specified pre-apprenticeship programmes.

Estimate of Beneficiaries

3.108 Small sample sizes, the high degree of proxy responses and the low coverage of those paid below the income tax threshold mean that estimating the number of jobs likely to benefit from a 16–17 year old rate is considerably more difficult than estimating the overall number of beneficiaries from the minimum wage. The available figures, however, suggest that the number of jobs for 16–17 year olds which could potentially benefit is around 40,000. This represents about 6.5 per cent of jobs for 16–17 year olds – a percentage similar to the 6.2–7.6 per cent of jobs expected to benefit from the 2004 upratings of the adult rate and the youth Development Rate. We believe, however, that the proposed exemption for apprentices and those on pre-apprenticeship programmes will significantly reduce the number of 16–17 year old beneficiaries. This lower estimated impact is consistent with our view that a minimum wage for 16–17 year olds should act as a wage floor, removing the worst cases of exploitation, rather than seeking to achieve significant wage increases for a large number of this age group.

Future Reviews, Awareness and Enforcement

3.109 Many employer organisations commented that their support for a minimum wage for 16–17 year olds was conditional not only on it being introduced at a reasonable level, but also on the understanding that it would not be uprated in line with the youth Development Rate. We believe that the 16–17 year old rate should be reviewed periodically but see no reason automatically to link it to the youth Development Rate. In a few years' time we would wish to look again at the position of apprentices and participants on pre-apprenticeship programmes. We note here that we have no desire to consider extending the minimum wage to workers in compulsory school education and indeed the primary legislation only applies to workers who have ceased to be of compulsory school age.

3.110 While a 16–17 year old rate is unlikely to introduce any new enforcement issues, it may require new approaches to publicising the minimum wage, targeted at young people for whom the types of publicity used so far may be less effective. Young people may feel more vulnerable and less confident than their older workplace colleagues. Thought should therefore be given to the best means of encouraging young workers to come forward if they are not receiving their entitlement. A number of people suggested that Connexions, schools, youth organisations and local radio would be useful ways to reach young people.

We recommend that the Government should give consideration to specific channels to promote awareness among young people of both the minimum wage and mechanisms for enforcement.

A1 Consultation

We are grateful to all the people and organisations that helped us by providing oral and written evidence, and by organising or participating in visits and meetings. All organisations which participated, and gave consent for us to publish their names, are listed below according to the nature of their contribution.

Oral Evidence to the Commission on a National Minimum Wage for 16 and 17 Year Olds

Association of Convenience Stores
 British Beer & Pub Association
 British Hospitality Association
 British Retail Consortium
 British Youth Council
 Business in Sport and Leisure
 CBI
 Children's Rights Alliance for England
 Hairdressing Employers Association
 National Hairdressers' Federation
 Scottish Trades Union Congress
 Trades Union Congress
 Trades Union Congress Youth Forum
 UK Youth Parliament
 Union of Shop, Distributive and Allied Workers
 UNISON
 YMCA England

Written Evidence to the Commission on the Review of Minimum Wage Rates for 2004

British Apparel & Textile Confederation
 British Hospitality Association
 British Retail Consortium
 Business in Sport and Leisure
 Business Services Association
 CBI
 EEF
 Her Majesty's Government
 Scottish Executive
 Trades Union Congress
 Transport and General Workers Union
 Union of Shop, Distributive and Allied Workers
 UNISON

***Written Evidence to the Commission on
a National Minimum Wage for 16 and
17 Year Olds***

Agricultural Wages Board (Northern Ireland)
Amesbury, Mr M, Senior Personal Adviser,
Connexions, Salford
Association of British Travel Agents
Association of Convenience Stores
Association of Licensed Multiple Retailers
Association of Teachers and Lecturers
Avon Tyrrell Activity and Residential Centre
British Apparel & Textile Confederation
British Association of Leisure Parks, Piers &
Attractions
British Chambers of Commerce
British Hospitality Association
British International Freight Association
British Retail Consortium
British Shops and Stores Association
British Youth Council
British Youth Council (joint submission with Child
Poverty Action Group, Children's Rights Alliance
for England, National Children's Bureau, UK
Youth Parliament, YMCA England)
Brucciani (Midlands) Ltd
Business in Sport and Leisure
Business Services Association
CBI
Child Poverty Action Group (joint submission with
British Youth Council, Children's Rights Alliance
for England, National Children's Bureau, UK
Youth Parliament, YMCA England)
Children's Rights Alliance for England (joint
submission with British Youth Council, Child
Poverty Action Group, National Children's
Bureau, UK Youth Parliament, YMCA England)
Christopher Monckton Limited
Citizens Advice
Citizens Advice Northern Ireland
Citizens Advice Scotland
Cleaning & Support Services Association
Communication Workers Union
Connaught Leisure Limited
Connexions Lincolnshire and Rutland Central
Vacancy Unit
Consumer Services Industry Authority
Coventry and Warwickshire Chamber of Commerce
Daycare Trust
De Val, Mr A
Dudley Zoological Gardens
Dyfed Cleaning Services Limited
Early Childhood Forum
Educational Institute of Scotland
EEF
Equality Commission for Northern Ireland
Equal Opportunities Commission
Ethical Trading Initiative
Federation of Licensed Victuallers Associations
Flambards Village Theme Park
GMB
Greenwood Forest Park Ltd
Hairdressing Employers Association (joint submission
with National Hairdressers' Federation)
Her Majesty's Government
Horticultural Trades Association
Institute of Payroll and Pensions Management
KFAT
Labour Relations Agency
Learning and Skills Council
Learning and Skills Development Agency
Lincolnshire South West Teaching Primary Care Trust

Lucas, Professor R, and Sehkaran, Miss S N, The
 Centre for Hospitality and Employment Research,
 Manchester Metropolitan University Business
 School

Lyons, Mr J, MP
 NASUWT
 National Association of Careers and Guidance
 Teachers

National Children's Bureau (joint submission with
 British Youth Council, Child Poverty Action
 Group, Children's Rights Alliance for England,
 UK Youth Parliament, YMCA England)

National Farmers' Union of England and Wales

National Group on Homeworking

National Hairdressers' Federation (joint submission
 with Hairdressing Employers Association)

National Pharmaceutical Association

National Trainers Federation

National Union of Journalists

National Union of Students

National Union of Students Scotland

National Youth Agency

Northern Ireland Amusement Caterer's Trade
 Association

Northern Ireland Public Service Alliance

Northern Ireland Textiles & Apparel Association

Royal College of Midwives

Scottish Enterprise

Scottish Executive

Scottish Licensed Trade Association

Scottish Low Pay Unit

Scottish Socialist Party

Scottish Trades Union Congress

SELECT

Small Business Council

Small Business Service

Spalding High School 6th Form

The Cinema Exhibitors' Association

The Maternity Alliance

Trades Union Congress

Transport and General Workers Union

Trefnu Cymunedol Cymru

UK Youth Parliament (joint submission with British
 Youth Council, Child Poverty Action Group,
 Children's Rights Alliance for England, National
 Children's Bureau, YMCA England)

Union of Shop, Distributive and Allied Workers

UNISON (joint submission with YMCA England)

Unquoted Companies Group

U What? Campaign, Children's Rights Alliance for
 England

Wales TUC Cymru

Welsh Assembly Government

White Horse Child Care Ltd

Working Men's Club and Institute Union Limited

YMCA England (joint submission with British
 Youth Council, Child Poverty Action Group,
 Children's Rights Alliance for England, National
 Children's Bureau, UK Youth Parliament)

YMCA England (joint submission with UNISON)

Visits and Meetings

Agricultural Wages Board for England and Wales
Anchor Inn
Andrew Collinge Hairdressing Group
Association of Convenience Stores
Association of Licensed Multiple Retailers
Avanti Hair Team
Barnardo's
Blenheim House
British Hospitality Association
British Retail Consortium
British Shops and Stores Association
British Youth Council
Business in Sport and Leisure
Children's Rights Alliance for England
CLS Group
Commission for Racial Equality
Community and Youth Workers Union
Connexions, Peterborough
Cross-Government Group on Financial Support for
16–19 Year Olds
Department for Employment and Learning,
Northern Ireland
Federation of Small Businesses
Foxby Hill Nursing Home
GMB
Greggs plc
Hairdressing Employers Association
Iain's Barber Shop
Independent Care Organisations Network
Kirkwood, Sir A, MP
Learning and Skills Council
Learning and Skills Development Agency
Liverpool University Student Employment Service
Lyons, Mr J, MP
Moore, Mr M, MP
National Assembly for Wales
National Association of Careers and Guidance
Teachers
National Hairdressers' Federation
O'Donovan, Mr S
Purvis, Mr J, MSP
Robson, Mr E, MSP
Scottish Cashmere Club
Scottish Enterprise Borders
Scottish Executive
Small Business Service
St Piran Supplies
Tates Ltd
Trades Union Congress
Transport and General Workers Union
Tremethick House
Union of Shop, Distributive and Allied Workers
UNISON
YMCA England
YMCA Lincoln

A2 Low Pay Commission Research Projects

Table A2.1

Low Pay Commission Research Projects on 16–17 Year Olds

Contractor	Aims and Objectives	Methodology	Results
C. Frayne and A. Goodman (Institute for Fiscal Studies)	To estimate the impact of introducing a National Minimum Wage for 16 and 17 year olds on employment and education outcomes.	The research uses the Education Maintenance Allowance (EMA) data sets to determine the impact of a minimum wage on both labour demand and labour supply. Data are from English pilot EMA areas and control areas, collected in Summer 1999 and 2000. The report sets bounds on the possible impact of a minimum wage by describing how much employment might fall if labour markets are competitive, and how much it might rise in the monopsonistic case.	<p>The report estimates that in a perfectly competitive market, every 1 per cent increase in the 16–17 year old wage results in a 3.6 per cent decrease in employment hours amongst this group. This large estimated elasticity suggests that other workers can replace 16–17 year olds easily and that a minimum wage of £3.00 would reduce employment hours by around 6 per cent for this age group. However, this is an upper bound and if firms are able to absorb even part of the costs of higher wages the effects will be far more moderate.</p> <p>If the labour market for 16–17 year olds is not competitive, but instead is characterised by market power on the part of firms, then the introduction of a minimum wage may also affect the employment and schooling choices of young people by increasing the benefits of working relative to not working. The findings suggest that an increase in the wage tends to lead to a shift out of school and into the labour market, and also towards combining school and employment. However, the number of young people who would alter their behaviour in this way does not appear to be significant.</p>

Contractor	Aims and Objectives	Methodology	Results
A. Dickerson and P. Jones (Warwick Institute for Employment Research)	Quantitative research on the impact of the introduction of a minimum wage on the labour market behaviour of 16 and 17 year olds.	The research uses the Youth Cohort Study (YCS) to analyse the factors and influences underlying the choices that 16 and 17 year olds make with regard to education and employment, and in particular, to examine the importance of wages on their decisions.	<p>Those seeking work and those remaining in education after the end of compulsory education form two rather distinct groups. Moreover, compared with other factors, wages would appear to have little influence on the allocation between these two groups.</p> <p>The decision whether to remain in full-time education (FTE) or to seek employment or a place on government-supported training is typically made at the end of compulsory schooling. The decision is largely permanent. While differences by gender and family background are significant, the largest single influence on the decision to remain in FTE at 16 is GCSE attainment. Using GCSE attainment as the indicator of ability suggests that a minimum wage set between £2.50 and £4.00 will have negligible effects on education participation, irrespective of whether or not young people on government-supported training programmes are covered.</p>
British Youth Council	Qualitative research on the impact of the introduction of a minimum wage on the labour market behaviour of 16 and 17 year olds.	The study surveyed young people in two separate groups: young people aged 14–16 in compulsory education; and young people aged 16–17 including those in education, unemployment, employment or training. A postal and online questionnaire was distributed through a network of youth organisations with nearly half of the 5,000 questionnaires completed and returned. Eight focus groups were also held covering the four UK countries and the two age groups.	A National Minimum Wage of £3.00 to £3.50 would have little impact on the decisions of young people on whether to stay in education or training or to go into employment. Many young people would not sacrifice their education for £3.00 to £3.50 an hour and those considering an apprenticeship would not be discouraged by a minimum wage at these rates.

Contractor	Aims and Objectives	Methodology	Results
<p>F. Neathey, J. Aston, P. Bates, S. Dench, V. Gerova, J. Hurstfield, L. Miller and J. Regan (Institute for Employment Studies)</p>	<p>Qualitative research on firms' attitudes to employing 16–17 year olds.</p>	<p>The project consisted of two stages: a telephone survey and case studies. Initial screening telephone interviews were held with 259 wholesale/retail, manufacturing, construction and hospitality organisations. From these 16 case studies were selected, including firms of various sizes and employing a mixture of students, non-students and work-based trainees.</p>	<p>The survey suggested strong sectoral differences in the ways that young people are employed. In particular, while manufacturing and construction employers employed almost all of their young workers on a full-time basis, in both wholesale/retail and hotel/restaurant sectors, part-time working was the norm. Case study organisations commonly employed young workers because of a lack of older staff. But a number also cited a range of advantages including their availability at times that suited business needs, their enthusiasm and their quickness to learn. None said that the lack of a minimum wage for this age group was a reason for their employment. However, several were employing 16–17 year olds at below the youth Development Rate.</p> <p>In most cases, companies employing young workers in low-skilled roles did not think that they were less productive than older workers. However, young people in training roles were seen as less productive than their older, trained counterparts, and training costs added to the costs of employing this group.</p> <p>Around a half of the case study employers paid employees different rates of pay according to age. Most paid 16 and 17 year olds an hourly rate below the then adult minimum wage (£4.20) and a quarter paid below the then youth Development Rate (£3.60). Most paid their young workers a lower rate of pay for the same job than those aged 18 and over.</p> <p>The majority of case study employers were broadly favourable to a minimum wage for 16–17 year olds. Two with young workers in training roles were opposed and felt they would be unable to provide trainee positions if a minimum wage was introduced for 16–17 year olds.</p>

Contractor	Aims and Objectives	Methodology	Results
J. Heyes (Leeds University Business School)	Qualitative research on firms' attitudes to employing 16 and 17 year olds.	A telephone/postal survey based on a random sample of 800 firms in manufacturing, construction, retail, hospitality and hairdressing sectors was carried out in Yorkshire and Humberside along with 28 case studies.	<p>It is common for 16 and 17 year olds to be employed in the industries covered by the study. With the exceptions of construction and hairdressing, differences in the extent to which younger and older people performed different types of work were found to be relatively limited and of short duration. Where they existed, differences were generally due to young workers' relative lack of training and experience and restrictions of a health and safety nature.</p> <p>Firms' pay practices for 16 and 17 year olds were found to be subject to a variety of influences, some of which were industry specific (e.g. the role of colleges in the hairdressing industry and of nationally agreed training rates in the construction industry). The perceived ability of young workers was commonly cited as a factor influencing pay. A majority of firms in all industries apart from hairdressing paid 16 and 17 year olds an hourly wage of at least £3.80. Opposition to a minimum wage for this age group was limited, with firms in hairdressing least favourably disposed towards the idea. Overall, 80 per cent of firms believed that their propensity to employ young workers would be unaffected should the current Development Rate be extended to workers aged 16 and 17.</p>

A3 Minimum Wages for 16 and 17 Year Olds in Other Countries

An Overview

- 1 In previous reports we have provided information on the key features of minimum wage systems in selected countries and seen that, among these countries, the UK has been unique in not applying a minimum wage at some rate to 16 and 17 year olds. This appendix compares the minimum wages for 16 and 17 year olds as a percentage of adult minimum rates across a number of countries and then looks at the current economic activities of young people in these countries. Finally we provide case studies on Australia, Belgium, Canada, France, Ireland, Netherlands, New Zealand, Spain and the United States.
- 2 We are grateful to the Organisation for Economic Co-operation and Development (OECD) and a number of British Embassies and High Commissions for their assistance with our research. Unless indicated otherwise, the information contained in this appendix is derived from material provided by the relevant British Embassy or High Commission.

Comparisons of Minimum Wage Systems

- 3 Table A3.1 shows youth minimum wages as a percentage of adult wages in selected countries. Greece, Portugal, Spain and most Canadian jurisdictions entitle 16 and 17 year olds to the adult minimum wage. In the United States 16 and 17 year olds are due the adult minimum wage after the first 90 days in the job and in France the full rate applies after six months. Only the UK does not apply any minimum wage to 16 and 17 year olds.

Table A3.1

Youth Minimum Wages as Percentage of Adult Minimum Rates, end 2002

Country	Percentage at age 16	Percentage at age 17
Australia ^a	50	60
Belgium	70	76
Canada ^b	100	100
France ^c	80	90
Greece	100	100
Ireland	70	70
Japan ^d		
Netherlands	34.5	39.5
New Zealand	80	80
Portugal ^e	100	100
Spain	100	100
UK	Exempt	Exempt
United States ^f	82.3	82.3

Source: OECD and British Embassies and High Commissions.
Notes:

- Actual rates vary according to individual awards. This example uses the rates applicable to a key award in retail, a major employer of young people, and is broadly indicative of youth minimum wages generally.
- In most provinces.
- The reduced rates apply only to youths with tenures of less than six months.
- Varies by prefecture.
- Except for apprentices and trainees in qualified or highly qualified jobs, who can receive 80 per cent for up to a year, or six months if the course is technical/professional.
- The reduced rates apply only to youths with tenures of less than three months.

Economic Activities of Young People

- 4 Table A3.2 shows the ages at which compulsory schooling ends in the various countries and indicates the percentage of 16 and 17 year olds in either part-time or full-time education. In Belgium and the Netherlands 16 and 17 year olds are required to attend at least part-time education until the age of 18. In a number of countries compulsory schooling ends at age 16, but a lower age applies in most States in Australia and in Greece, Japan and Portugal. In the majority of countries over 90 per cent of 16 year olds continue in education but, with the exception of Belgium, Canada and Japan, a significantly lower proportion of 17 year olds remain in education. Table A3.3 shows the economic activities of 15–19 year olds. It is noticeable that in Belgium (90.2 per cent), France (89.8 per cent), Greece (87.4 per cent) and to a slightly lesser

degree Spain (74.3 per cent), Portugal (73.6 per cent) and Ireland (72.0 per cent), a significantly higher proportion of young people are not in the labour force, compared with the United States (58.4 per cent), Canada (52.8 per cent), the UK (52.4 per cent), Australia (40.0 per cent) and the Netherlands (38.7 per cent).

Table A3.2

Participation in Full-Time or Part-Time Education at Ages 16 and 17, 2001

	Ending age of compulsory education ^a	Age 16			Age 17		
		Secondary education	Post-secondary non-tertiary education ^b	Tertiary education	Secondary education	Post-secondary non-tertiary education	Tertiary education
Australia	15	93	— ^c	— ^c	79	1	5
Belgium	18	98	— ^c	— ^c	100	— ^c	1
Canada	16	94	1	— ^c	95	7	4
France	16	96	— ^c	— ^c	89	— ^c	2
Greece	14.5	92	— ^d	— ^d	68	— ^d	— ^d
Ireland	15 ^e	91	— ^c	— ^c	70	4	6
Japan	15	96	— ^d	— ^d	93	— ^d	— ^c
Netherlands	18	99	— ^c	— ^c	83	— ^c	6
New Zealand	16	87	1	— ^c	68	3	3
Portugal	14	79	— ^d	— ^d	73	— ^d	3
Spain	16	94	— ^c	— ^c	79	1	— ^c
United Kingdom	16	86	— ^f	— ^c	72	— ^f	2
United States	17	88	— ^c	— ^c	75	— ^c	3

Source: OECD (2003).

Notes:

- Ending age of compulsory education is the age at which compulsory schooling ends. For example, an ending age of 18 indicates that all students under age 18 are legally obliged to participate in education.
- Post-secondary non-tertiary education straddles the boundary between upper secondary and post-secondary education from an international point of view, even though it might clearly be considered as an upper secondary or post-secondary programme in a national context. Although their content may not be significantly more advanced than upper secondary programmes, they serve to broaden the knowledge of participants who have already gained an upper secondary qualification. The students tend to be older than those enrolled at the upper secondary level.
- Magnitude is either negligible or zero.
- Data not applicable because the category does not apply.
- The age for compulsory education was increased to 16 in 2002.
- Data included in the secondary education category.

Table A3.3

Percentage of 15–19 Year Olds in Education and Not in Education, by Work Status, 2001

Country	In education				Not in education				
	Students in work-study programmes ^a	Other employed ^b	Unemployed	Not in the labour force	Sub-total	Employed	Unemployed	Not in the labour force	Sub-total
Australia	7.3	29.0	6.4	36.7	79.5	13.0	4.3	3.3	20.5
Belgium	2.0	1.7	0.3	85.7	89.7	4.1	1.8	4.5	10.3
Canada	– ^c	29.1	5.2	49.5	83.9	10.2	2.6	3.3	16.1
France	6.2	0.4	– ^d	88.2	94.9	1.7	1.8	1.6	5.1
Greece	0.2	1.1	0.6	83.8	85.7	6.8	3.9	3.6	14.3
Ireland	– ^c	9.9	0.5	69.8	80.3	15.5	1.9	2.2	19.7
Netherlands	– ^e	40.1	3.5	36.0	79.6	16.3	1.4	2.7	20.4
Portugal	– ^c	2.9	0.4	68.7	72.0	20.3	2.8	4.9	28.0
Spain ^f	0.5	3.0	1.6	70.7	75.8	15.1	5.4	3.6	24.2
United Kingdom	4.8	20.4	2.2	48.7	76.1	15.7	4.4	3.7	23.9
United States	– ^c	23.9	3.5	53.7	81.2	11.4	2.8	4.7	18.8

Source: OECD (2003).

Notes:

- Students in work-study programmes are considered to be both in education and employed, irrespective of their labour market status according to the International Labour Organisation (ILO) definition.
- The category 'other employed' includes people in education who are employed but not included in a work-study programme.
- Data not applicable because the category does not apply.
- Magnitude is either negligible or zero.
- Data not available.
- 16 to 19 year olds.

Case Studies

Australia

- 5 Lower minimum wages for workers aged below 21 have been a feature of the Australian wages system since early in the twentieth century. A survey of 100 key federal awards undertaken by the Department of Employment, Workplace Relations and Small Business found that 76 per cent contained provision for lower minimum wages for workers aged below 21. Typically 16 year olds were entitled to 50 per cent of the minimum adult rates and 17 year olds received between 55 and 65 per cent of the adult rates.
- 6 During the 1990s there was much political debate about the future of junior wages in Australia in the light of anti-age discrimination legislation. In 1999 the Australian Industrial Relations Commission (AIRC) concluded its inquiry on the feasibility of replacing junior minimum wage rates with non-discriminatory alternatives. The report concluded that none of the non-discriminatory alternatives considered were feasible and that 'a discounted pay rate for entry level work continues to be necessary in the areas in which employment under junior rate classifications is most concentrated'.
- 7 The Joint Government's Submission (1998) to the AIRC inquiry stated that 'there has been a marked deterioration in young people's position in the full-time labour market over the last 15 years. There has been a steady decline in full-time employment opportunities for young people, accompanied by persistently high rates of full-time youth unemployment. At the same time there has been an increase in education participation and in the proportion of young people who combine full-time education with part-time employment. Youth employment is concentrated in a narrow range of industries, with retail trade accounting for around 50 per cent of teenage employment overall, and around 62 per cent of teenage part-time employment.' The submission argued strongly for the retention of junior rates on the grounds that their removal would have a detrimental impact on youth employment and would damage young people's longer-term prospects. The AIRC shared this view and found no feasible non-discriminatory alternatives.

Belgium

- 8 While the legal school leaving age in Belgium is 18, from the age of 15 and provided they have completed the first two years at secondary school, young people may move to the part-time education system (attending at least 50 per cent of school lessons) in combination with one of the three following alternative programmes:
- reduced hours education programme/training with a part-time job or self-employed activity;
 - an apprenticeship contract for young people between 15 and 18. This programme gives young people the opportunity to receive practical training from a salaried person within a company, together with complementary theoretical lessons (half of the time) in an education/training centre;
 - general, practical and technical training provided by a company manager in the framework of an apprenticeship or self-employed activity.
- 9 Participants receive a 'monthly indemnity'. Those 16 and 17 year olds who have six months' work experience are entitled to 70 and 76 per cent respectively of half of the adult minimum wage (i.e. 35 and 38 per cent of the adult rate). Those without six months' job experience earn 70 and 76 per cent respectively of a third of the minimum wage (i.e. approximately 23 and 25 per cent of the adult rate).
- 10 Apprenticeship joint commissions set the rate of monthly indemnity whereas each year the rate of the minimum wage is revised within the labour collective conventions. Pay conditions and wage levels for 16–17 year old students with part-time jobs are set by each Joint (sector) Commission.
- 11 We are not aware of any data on, or debate about, any link between the level of the monthly indemnities and the potential incentive for 16–17 year olds to leave the full-time education system.

Canada

- 12 Following the adoption of the Charter of Rights and Freedoms in 1982 which prohibits discrimination on the basis of age there has been a marked trend towards the repeal of lower minimum wages for young people. Lower rates nevertheless still exist in Ontario, the Northwest Territories (employees below age 16), Nova Scotia and British Columbia; but generally they only apply to workers with little experience of paid employment.
- 13 Between 1990 and 1996 there was a decline in the participation rate of 15–24 year olds in the labour market and an increase in the proportion attending school full-time. Archambault and Grignon (1999) studied the causes of these changes and found that the business cycle had a significant effect on the youth labour market participation rate. Changes to income support programmes and employment/unemployment insurance had only a negligible effect on youth participation rates and school enrolment. They also reported that 'increases in the minimum wage relative to the average industrial hourly wage in a number of provinces seem to have aggravated

the employment situation among young people, the net effect of which has been their withdrawal from the labour market. Increases in the minimum wage account for between 0.3 and 0.7 percentage point, or 3 to 9 per cent of the decrease in the youth participation rate in the 1990s.'

France

- 14** In France 16 and 17 year olds are entitled to 80 and 90 per cent respectively of the adult minimum wage. They are, however, regarded as minors and, although they are legally allowed to work, this is not encouraged and very few of them do so. There are no available statistics for labour market participation of this age group but over 90 per cent of 17 year olds receive some form of education or training.
- 15** French society places a high value on diplomas and qualifications and most jobs have specific entry routes – even those at the lower end of the pay scale. The main school qualification is taken at the age of 18 and is considered by most to be an absolute minimum for entering the world of work. The existence of the professional baccalaureat allows pupils to receive an introduction to vocational training and receive a qualification which is recognised by both employers and universities.
- 16** Young people who wish to learn a trade may take up an apprenticeship and receive a percentage of the minimum wage which increases according to the time spent in training (workers under the age of 18 in their first, second or third year of an apprenticeship are entitled to 25, 37 or 53 per cent of the minimum wage respectively). There is, however, an incentive to complete secondary education before choosing this option as pay increases with age (for example, apprentices aged 18–20 receive 41 per cent of the minimum wage in their first year).
- 17** A similar sliding pay scale applies to 'contrats de qualification' and 'contrats d'orientation' (i.e. employment contracts which allow young people to receive off the job training). Workers aged 16–17 receive 30 per cent of the minimum wage in their first year and 45 per cent in their second year.
- 18** The high value placed on diplomas, rising unemployment rates and the lack of benefits available to this age group mean that there is very little incentive for 16–17 year olds to leave school and those that do are often the most socially excluded.

Ireland

- 19** Employees under the age of 18 are entitled to 70 per cent of the adult minimum wage. This percentage was recommended by the National Minimum Wage Commission and endorsed by the Inter-Departmental Group on Implementation of a National Minimum Wage following examination of the issues involved. The Group believed that there would always be a certain number of young people entering full-time employment before the age of 18 and that special protection was warranted since this group was among the most vulnerable in society. It was considered that

70 per cent of the adult rate would strike the required balance between ensuring that young people were not attracted out of the education system prematurely and preventing exploitation of 16–17 year olds who entered the labour market.

- 20** Ireland introduced its minimum wage in April 2000 and the Economic and Social Research Institute (ESRI) carried out studies before and after its introduction. It found that the percentage of workers who were aged 18 or less fell slightly from 5 to 3 per cent (the 3 per cent represented 37,900 people) between 1999 and 2001. It considered that this possibly reflected the tightness of the labour market and was driven more by re-entry and increased participation rates among those in older cohorts than by the effects of the minimum wage. Further research carried out by the ESRI shows that the percentage of workers aged 18 or less has further fallen to 2 per cent (representing 25,280 people) and that almost half of these are on minimum wage levels.
- 21** Young people who leave school early often experience particular difficulties in the jobs market. Some make their way into out-of-school programmes, such as the Community Youth Training Programme or FÁS (Training and Employment Authority) mainstream courses, but most find it impossible to compete with more qualified candidates for work and training. As a response to the needs of unqualified early school leavers in Ireland, YOUTHREACH offers a programme of integrated general education, vocational training and work experience. A weekly training allowance is paid which varies depending on age (€48.40 and €60.50 per week respectively for 16 and 17 year olds). Courses are full-time and are available on a year round basis, and part-time options are currently being developed.

The Netherlands

- 22** Labour market prospects for young people in the Netherlands seem to depend quite crucially on the business cycle. In the years of economic prosperity (from the mid-90s until 2001/02) many young people left school to look for jobs and these were widely available. Since then the labour market situation has been more depressed and young people have become more vulnerable to unemployment.
- 23** The impact of the minimum wage on different aspects of the labour market has been dealt with quite extensively, although there are no recent empirical findings. Evidence from the 1980s concludes that participation and continued education are very sensitive to financial incentives. Accordingly the Netherlands has set its minimum wages for young people at a low level compared with other countries. There is also concern that high wages (as seen in 2001 and 2002) stimulate youngsters to leave school early in order to earn money. However the Dutch authorities believe that participation in the labour market by 16 and 17 year olds is primarily driven by the business cycle and not by the level of the minimum wage for this age group.

24 Additional schooling and subsidised employment are examples of measures taken to strengthen the labour market position of youngsters after they have finished their education or 'dropped out'. One financial measure which applies more broadly to all employees, not just youngsters, is the tax deduction for schooling. It is not meant to 'guarantee' that youngsters remain in education, but rather to stimulate employees with a weak labour market position (who are often low-skilled) to take additional education and/or training. A tax deduction (€1,500 a year), aimed at employers who offer youngsters the possibility to get their 'startqualification' (secondary schooling), came into force in January 2004.

New Zealand

25 In 1994 a youth minimum wage was introduced set at 60 per cent of the adult minimum wage and initially applied to 16–19 year olds. Significant reforms to the minimum wage were introduced in March 2001 and included reducing the eligible age for the adult minimum wage from 20 to 18 years. In addition the youth minimum wage was raised in two annual steps from 60 to 80 per cent of the adult minimum wage, resulting in the minimum wage for 16–17 year olds increasing by 41 per cent over a two year period.

26 A draft research paper by Hyslop and Stillman (forthcoming) from the New Zealand Department of Labour provides some quantitative modelling of the effects of the youth minimum wage reforms implemented in 2001. Hyslop and Stillman compared the average outcomes of the age groups affected by the changes (16–17 and 18–19 year olds) with those of 20–25 year olds before and after the policy reforms. They stated that 'contrary to standard economic model predictions, these analyses provide no robust evidence of adverse effects of the minimum wage changes on youth employment or hours worked. In fact, we find stronger evidence of positive employment responses to the changes for both groups of teenagers, and that 16–17 year-olds increased their hours worked by 10–15 per cent following the minimum wage changes. However, we do find some evidence of a decline in educational enrolment, and an increase in unemployment and inactivity, although these results depend on the specification adopted.'

Spain

27 Since 1998, 16 and 17 year olds have been entitled to the adult minimum wage. Previously there was a single rate for 16 and 17 year olds, although separate rates for each of these age groups existed prior to 1990. Güemes and Domínguez (2001) noted that 'as a result ... the minimum wage of 16 year olds increased in nominal terms over the last 10 years by 284%, that of 17 year olds by 142% and that of the over 18's by 48.4%'.

28 There is evidence that these reforms of the minimum wage system had an adverse impact on employment of 16 and 17 year olds. Dolado *et al.* (1996) stated that 'we do have evidence from Spain that rising minimum wages in the early 1990s have reduced youth employment' and

Güemes and Domínguez (2001) concluded that the unemployment rate for 16 and 17 year olds has shown itself to be extremely sensitive to minimum wages.

- 29 It should be recalled that (as seen in our fourth report) the adult minimum wage in Spain is low compared with the other countries studied. It seems unlikely that a minimum wage at this low level would serve as an incentive to 16–17 year olds to forgo education or training opportunities. There are approximately 986,000 16–17 year olds in Spain, of whom around 656,000 are still at school and at least another 225,000 are in vocational training. It is extremely rare for an untrained 16–17 year old to obtain a permanent job, although unskilled 16–17 year olds can usually find low-quality, temporary jobs.

United States

- 30 The formal school leaving age varies from 16 to 18 across States but anyone leaving prior to age 18 normally fails the High School diploma, which is a very basic requirement for most employers. The majority of such young people are condemned to a working life with limited upward progression in terms of prospects and pay.
- 31 A U.S. Department of Labor Report on the Youth Labour Force (2000) noted that according to the Current Population Survey during the school months of 1996–98, 26 per cent of 16 year olds and 39 per cent of 17 year olds were employed in an average month. These employment rates increased to 36 and 48 per cent respectively in the Summer. The unemployment rates during the school months were 21 per cent among 16 year olds and 16 per cent among 17 year olds. The Report also stated that according to the Current Population Survey 13 per cent of 16 year olds received the minimum wage in 1998 and 71 per cent received more than the minimum wage. The figures for 17 year olds were 11 per cent and 74 per cent respectively.

Abbreviations

ABTA	Association of British Travel Agents
AEI	Average Earnings Index
AIRC	Australian Industrial Relations Commission
BHA	British Hospitality Association
BISL	Business in Sport and Leisure
BRC	British Retail Consortium
BYC	British Youth Council
CAB(x)	Citizens Advice Bureau(x)
CBI	Confederation of British Industry
DfES	Department for Education and Skills
EMA	Education Maintenance Allowance
ESRI	Economic and Social Research Institute
FTE	Full-Time Education
GCSE	General Certificate of Secondary Education
GDP	Gross Domestic Product
GST	Government-Supported Training
HEA	Hairdressing Employers Association
IDS	Incomes Data Services
ILO	International Labour Organisation
IRS	Industrial Relations Services
KFAT	National Union of Knitwear, Footwear and Apparel Trades
LFS	Labour Force Survey
LPC	Low Pay Commission
LSC	Learning and Skills Council
LSDA	Learning and Skills Development Agency
MPC	Monetary Policy Committee
MTA	Minimum Training Allowance
NASUWT	National Association of School Masters/Union of Women Teachers
NEET	Not in Education, Employment or Training

ABBREVIATIONS

NES	New Earnings Survey
NHF	National Hairdressers' Federation
NMW	National Minimum Wage
NVQ	National Vocational Qualification
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
RPIX	Retail Price Index excluding mortgage interest payments
SBC	Small Business Council
SVQ	Scottish Vocational Qualification
TUC	Trades Union Congress
UK	United Kingdom
US	United States
Usdaw	Union of Shop, Distributive and Allied Workers
WBL	Work-Based Learning
YCS	Youth Cohort Study
YDR	Youth Development Rate

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