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The Rational Kernel of Osbornomics? Labour can Liberate the National Living Wage

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Yesterday Labour leadership contender Owen Smith launched a 25-point 'manifesto for fairness at work'. In it, he pledges to 'strengthen the enforcement of the National Living Wage'. But what would it mean to do this in practice?

Recent reports suggest Brexit will cut 40p from the value of the new National Living Wage (NLW) in the UK. The NLW was introduced by ex-Chancellor George Osborne at the tail-end of the Cameron government. Its unequal implementation already hits workers hard. Under 25? Watch older colleagues take home between 50p and £2 an hour. Over 25? Fear replacement by younger new recruits as employers seek to cut costs by paying cheaper labour. Nobody stands to benefit from this in the long run but bosses. It pits workers against workers on an arbitrary age difference, fighting for a 'living wage' that is nothing of the sort. Without shifts in the way we work, higher wages can hobble workers. Smith's policy launch suggested a willingness to get to grips with this. But he can go further still.

Although meagre, the NLW was an intervention geared towards building a new kind of economy. Against a left-leaning Labour Party, Osborne could risk alienating the Tory business vote safe in the knowledge it had no other options. Emboldened, Osborne's economic gamble ran like this: Higher pay encourages employers to get more from employees by improving processes and techniques. Low-skill work will seem a less profitable option as the wages employers have to pay increase. Bosses seek more bang for their buck. Increased investment in productivity-raising tech follows higher wages. Those companies that cannot keep up with the costs of the new NLW will close. Investors flock to innovative firms paying staff decent wages for high-end goods and services. Economic success follows.

Osborne's wager was that productivity increases tail behind higher pay. But Tory 'blindness' to the balance of class forces ignored the productive relations that regulate how employers treat their workers. Take the National Minimum Wage. Employers only consented to it after winning concessions on lower-rates for under-22s. Similarly, the sacrifice of under-25s secured acquiescence to the NLW. Younger workers – students, gap-year savers, coerced jobseekers – are not worth the investment; the lower rate is commensurate with lower commitment and longevity in the job.

The attempt to build a new economy through fiddling with wages runs up against the power of employers to exploit workers. It was a basic contradiction in Osborne's approach to which the next Labour leader might profitably trouble the new Chancellor, Philip Hammond, with a solution.

Last week Smith outlined a few policies that match this purpose. The first is reintroducing wage councils for retail, hospitality and care, among those sectors most impacted by the NLW. Long suggested by the TUC, wage councils overcome non-unionisation by leapfrogging individual firms to bargain sector-by-sector. Greater wages oversight could combat imposed competition on account of age. The second is ensuring worker representation on remuneration committees, which will likewise assist employees in larger firms.

But more can be done. The NLW must first apply to all workers regardless of age. As long as employers have incentive to pay younger workers less, they will invest little in their futures and skills. Upon reaching full NLW age, they can be sacked with scant recourse to redress. Rolling out the NLW to all workers, apprentices or otherwise, makes good on Osborne's gamble. It renews the UK economy in a more productive, enjoyable direction. The Labour Party is best placed politically to make sure this benefits workers, and not just their bosses.

Extending the NLW alone may precipitate a long-overdue bout of creative destruction, incentivizing automation. Paid to do what a machine could do for less, sacked workers would find their skills surplus to requirements. Policy must enable workers to weather the storm. This applies especially to younger workers, languishing at the bottom of the labour market. They need preparation for an economy where employers invest in productivity-raising techniques and technologies at the expense of low-paid, low-skilled labour.

Two proposals from the Party of European Socialists' recent Marshall Plan for Youth offer a start. Firstly, under the Youth Guarantee, all jobs that do not require a degree should come with guaranteed further education and apprenticeships across all roles and sectors. This will encourage employers to invest in skilled, fulfilling work, and allow workers to continue learning new know-how and techniques fitted to a

modern economy. They end up equipped to perform high-level knowledge work over machines, rather than under them, and in good stead to bargain for higher wages. The extension of the NLW, in this case, attends on changes in the productive base of economy, and vice versa. Nothing follows from merely a tweak in the pay system.

Secondly, 'Eramus for All' extends the Erasmus scheme from HE students to all young people in work or education. This could be a powerful post-referendum case for sustaining close business and academic links with the EU. Of course, uncertainty surrounds the UK's future in both Europe and Erasmus. But, in the absence of EU implementation of such an extension, the UK could fund it unilaterally. This could fit the Youth Guarantee's new dual education scheme. Workers travel abroad, circulating 'best practice' from more productive, equal countries like the Netherlands, whose flood prevention techniques could filter through the British system from the bottom up, for instance.

The NLW is best extended and bolstered by creating a reality where employer evasion is impossible. Such policies make it hard for firms to survive without reaching the wage-productivity compromise the NLW implies. They compel firms to react to the NLW by changing work itself rather than cutting back on it, to the cost of workers themselves. For Labour, moralistic arguments won't cut mustard. Whoever leads must wield the rational kernel of Osbornomics against the new Chancellor. No longer low-paid young labour, but lighter, more liberating workloads for better pay – that should be the aim.

The challenge, in a new industrial revolution, is how to support those at the sharp end of creative destruction. In entertaining the contested prospect of a basic income, Labour's Shadow Treasury team has been ahead of the curve. After September, this vital work should continue. But tinkering with the coins in peoples' pockets only goes so far. The goal must be to change the things they have to do to get them in the first place.