



Conflicting Economic Policies and Mental Health: Evidence from the UK National Living Wage and Benefits Freeze

Background

- The UK's National Living Wage (NLW) aimed to improve earnings for low-wage workers, however, the simultaneous benefits freeze reduced the real value of welfare support, potentially undermining the intended financial and psychological benefits of the wage increase.

Study Overview

- This study employs a difference-in-differences approach to analyze the heterogeneous effects of the NLW on mental health, considering the concurrent impact of the benefits freeze. Using UK longitudinal survey data, this research assesses whether the NLW positively influences mental well-being and whether these effects are constrained by welfare reductions.

Learn More

- Akanni, L., Lenhart, O., and Morton, A..(2024), Conflicting Economic Policies and Mental Health: Evidence from the UK National Living Wage and Benefits Freeze. *J. Pol. Anal. Manage.*.. doi:10.1002/pam.22592
- <https://doi.org/10.1002/pam.22592>

Key Takeaways

- The authors found that the NLW policy led to improvements in mental health, particularly for workers not affected by the benefits freeze, who experienced an increase of approximately 0.79 points in the Mental Component Summary (MCS) score.
- The benefits freeze policy had a detrimental impact on mental health, especially for those relying on welfare support, offsetting potential gains from higher wages. Workers affected by the freeze experienced an average decrease of 0.61 points in their MCS score, with a stronger negative effect (-0.71 points) among those also eligible for the NLW.
- Increased job satisfaction and income stability contributed to better mental health outcomes, supporting the psychosocial hypothesis linking earnings to well-being.
- The study noted that higher wages led to a shift in work-leisure balance, which also played a role in mental well-being.
- These findings suggest that wage policies should not be evaluated in isolation but in the context of broader economic policies affecting income security and well-being, because while wage increases can have positive mental health benefits, simultaneous austerity measures such as the benefits freeze may counteract these effects, highlighting the need for more holistic policy approaches.