



# **Raising the minimum wage and social assistance – a panacea for the prosperity and well-being of the low-income group?**

*An ex-ante analysis of the impact of the policy change in 2023/2024 on income, health and well-being*



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## Summary

Income policy and poverty reduction are currently high on the political agenda, including due to the high levels of inflation. In this publication, we have examined the increase of the minimum wage and the associated increase in benefits, such as social assistance and the state pension (AOW), from 1 January 2023 and the planned switchover from a monthly to an hourly minimum wage in 2024. We have analysed the effects of these changes on the quality of life of Dutch citizens. In addition to income, we looked at health and well-being (non-financial aspects of quality of life). Previous studies conducted by the Netherlands Institute for Social Research (SCP) tell us that low income is not only associated with financial deficits, but often also with deficits in terms of welfare in a broader sense (see, for example, Hoff et al. 2021). One question relevant to policy is whether increasing low incomes will also affect welfare deficits more broadly. However, our analysis shows that raising the minimum wage and benefits will have little effect on health and well-being in the short term. This suggests that policies aimed at improving the lives of low-income people should be broader in scope than merely addressing the financial dimension or exclusively targeting high-risk groups.

### **Low income: poorer health and poorer well-being on average**

The starting point of our study is that there are substantial differences between income groups in terms of health and well-being. Our analysis shows that low-income individuals, on average, experience poorer health and well-being. Among other things, this manifests itself in shorter life expectancy, poorer self-reported health, greater use of medication and healthcare and lower life satisfaction. For example, roughly a third of people on the lowest 20% of incomes experience less than good health – that is three times as many as in the top 20% of incomes.

Our analysis, by means of a microsimulation, shows that the increase in the minimum wage and the related benefits in 2023 and the switchover to an hourly minimum wage in 2024 do indeed, on average, reach people on lower incomes and with poorer health. The policy change:

- increases the income of approximately 60% of the population by 2.3% on average – through personal income or the income of other members of the household;
- entails an increase in income of 1.2% for the entire population. The increase is more pronounced for low incomes: a 3.3% increase for the lowest 10% of incomes, decreasing to 0.2% for the highest 10% of incomes;
- reduces poverty and creates some more financial scope for social participation among low incomes, unless strong inflation continues into 2023;
- reaches people with, on average, poorer health – especially those receiving social assistance benefits.

### **Hardly any impact on health and well-being in the short term**

The reduction of income differences due to the policy change raises the question of whether this will also lead to a decrease in the differences in health and well-being between income groups. This is suggested by the fact that people with higher incomes also enjoy better health and a higher degree of well-being. We examined this expectation by means of a dynamic panel data analysis that monitors individuals over time, analysing how changes in income, on the one hand, and health and well-being, on the other, follow on from one another. On this basis, we have concluded:

- that changes in income, on average, have hardly any effect on health and well-being within a period of four years;
- that changes in income do have an impact if the change is accompanied by a change in employment status, such as when finding or losing work (which, in principle, does not apply to the policy change examined here);
- that there is an inverse effect of changes in health and well-being on incomes, which contributes to the average positive association between health, well-being and income.

Furthermore, this average association between health, well-being and income can potentially be attributed to effects that fall outside the scope of our analysis. These include income effects in the very short term (within one year) or long term (after four years) and effects of underlying factors, such as upbringing or heredity, which influence income and health both simultaneously and independently of each other.

## Conclusions in relation to policy

The results of our study have led to six key conclusions in relation to policy:

### **1. The policy is necessary to mitigate the negative effects of high inflation**

The high levels of inflation in 2022 have led to a sharp decline in the real value of the minimum wage and the associated benefits. The additional increase from 1 January 2023 compensates for this decline and approximately restores the situation to the conditions of 2021, unless inflation continues in 2023. The policy change therefore primarily counteracts the rise in poverty caused by inflation.

### **2. More is needed to achieve poverty targets**

The policy change is limited to compensation: an additional increase to make it more financially attractive to take up employment and strengthen the minimum level of subsistence as announced in the Coalition Agreement will not be achieved. Only the group of minimum-wage recipients with a full-time working week of more than 36 hours can expect a substantial increase in real terms when the minimum hourly wage is introduced in 2024. More is needed to achieve the government's poverty reduction targets for 2025 (children) and 2030 (entire population).

### **3. No short-term improvement in terms of health and well-being**

The policy change gives people at the bottom of the income distribution more financial opportunities to engage in social participation and lifestyle improvements: sports, relaxation, healthier nutrition, etc. However, our analysis shows that income changes in real terms have hardly any effect on health and well-being within a period of four years. As such, generic income policy appears to be unsuitable for reducing socio-economic health inequalities in the Netherlands in the short term.

### **4. Long-term effects on beneficiaries and effects on their children cannot be ruled out**

The fact that no improvements can be expected in the short term does not mean that the policy change will have no impact at all. In the longer term, beneficiaries or their children may benefit from a higher income, and generic income policies could subsequently lead to health and well-being gains.

### **5. Reducing health inequalities of the low-income group requires a comprehensive approach**

Differences in terms of health and well-being between income groups are persistent and appear to be the result of a large number of underlying factors. This requires a comprehensive approach by means of a multi-track policy strategy (see RIVM 2021).

### **6. More targeted policy can be more effective and efficient**

Policies aimed at high-risk groups can be more effective and efficient in reducing health and well-being deficits of the low-income group, instead of a general measure such as the rather generic income policy examined here. For example, studies have found positive health effects in debt restructuring schemes for people with a debt problem.

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