

New budget standards show just how inadequate the Newstart Allowance has become

Written by Peter Saunders, Research Professor in Social Policy, UNSW



An increase in the Newstart Allowance of well in excess of \$50 a week is urgently needed. AAP/
Joel Carrett

It's long been accepted that the level of Newstart Allowance for the unemployed is too low. The [Henry Tax Review](#) proposed an increase of "about \$50 a week" in the payment for single people to restore parity with the couple rate. Several community organisations, including the [Australian Council of Social Service](#), have called for similar changes over time.

But if the couple rate is also too low, this would reduce – not remove – the underlying inadequacy.

[Our new research](#) allows these and other income inadequacies to be estimated using a budget standards approach – that is, by calculating how much income a family needs to achieve a certain standard of living.

New budgets have been derived for families with the main (male) breadwinner either in full-time work and receiving the minimum wage, or unemployed and receiving Newstart. They cover single people, couples with no, one and two children, and a sole parent with one child. The first child in each family is a six-year-old girl and the second child is a ten-year-old boy.

The budgets for low-paid families vary between A\$597 per week (single person) and \$1,173 per week for the couple with two children. The corresponding weekly budgets for unemployed families are \$434 and \$930.

Comparing the new budget standards with the incomes provided by the social safety net for each family allows the adequacy of these provisions to be assessed.

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These comparisons show the minimum wage for a single person is \$62 above the low-paid budget standard. However, the safety net incomes for couple families with or without children all fall short of the new standards by between \$9 and \$89 per week.

For unemployed families, the Newstart-based safety net incomes are well below the unemployed standards in all instances: \$96 per week below for a single person, \$107 for a couple, and \$126 for a couple with two children.

How reliable are these estimates?

The budget standards approach involves deriving how much money a family needs to buy the basket of goods needed to achieve a particular standard of living.

The method has a long history in Australia. It dates back to when Justice Higgins used it as the basis for setting the living wage in the [Harvester judgment](#) in 1907.

The standard underpinning our new budget standards is the [Minimum Income for Healthy Living standard](#) developed in the UK. It is designed to allow each person to lead a fully healthy life in all of its dimensions, with implications for what people consume, own and do. It also means omitting items like tobacco products, too much “junk food”, and excessive consumption of alcohol, that are inconsistent with healthy living.

Any attempt to assess adequacy is fraught with difficulty. This reflects the elusive nature of adequacy itself, which is hard to give precise meaning to.

The [Harmer Pension Review](#) emphasised that it should reflect “prevailing community standards”, but what these are and how they are identified is open to interpretation.

Rather than retreat in the face of this uncertainty, the budget standards approach has met the challenge head-on by identifying the items required to reach the Minimum Income for Healthy Living standard.

What this means

The new standards suggest that while the minimum wage may be adequate for some low-paid workers, this is clearly not the case for Newstart Allowance, which is woefully inadequate.

An increase well in excess of \$50 per week is urgently needed, but so too is an independent mechanism for regular review and adjustment of its adequacy. Something similar to what the Fair Work Commission uses to set the minimum wage would be an obvious place to start, since that seems to work.

Improving and maintaining the adequacy of the incomes received by low-paid workers and the unemployed should be an integral part of any concerted effort to tackle overall economic inequality.

Peter Saunders received funding from an Australian Research Council Linkage grant for the research described here. As part of this Linkage grant additional cash and in-kind support was provided by Catholic Social Services, Australia, United Voice (National Office) and ACOSS.

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