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The Historical Development of Budget Standards for Australian Working Families

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Abstract: Recent research on budget standards conducted by the Social Policy Research Centre (SPRC) is the latest in a long line of Australian budget studies. This article reviews the budget standards research undertaken by the 1920 Royal Commission on the Basic Wage and as part of a study of household income and saving undertaken at the University of Melbourne in the 1940s. The concepts developed in these studies are related to those used in the SPRC research, and can be traced back to ideas originally developed in the UK in the 1890s and by the US Department of Labour in 1919. Estimates from all three Australian budget studies have been used to help set minimum wages, most recently in the 2004 Wages Safety Net Review. However, the budget standards method has been criticized for being arbitrary, by those who favour alternative approaches to the determination of minimum wages, and by those who prefer alternative ways of measuring poverty (or reject such measurement altogether). When the Australian budgets for 1920 and 1942–43 are updated by movements in prices and by the growth in real incomes to 1997, there are some remarkable similarities with the recent SPRC estimates. This casts doubt on claims that budget standards are arbitrary and thus do not provide a sound guide to setting wages or the incomes required to avoid poverty.

Keywords: *household budgets; living standards; minimum wages; poverty*

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1. Introduction

For almost a century, the setting of minimum wages in Australia has been informed by research on household budgets. In its modern guise, budget standards research identifies the needs associated with a given standard of living and constructs the budgets required to purchase the goods and services that satisfy them at existing prices. The resulting standards serve as benchmarks for assessing the adequacy of incomes in terms of their ability to support the specified level of need. The budgets will obviously vary according to what standard of living is specified, but household (or family – the terms are used interchangeably throughout this article) size, structure, and location will also determine how much is needed to achieve a given standard of living. So too will the number of earners, since the costs of working will need to be factored into the budgets. This provides an obvious link between budget standards research and attempts to set a living wage floor, a cornerstone of the Australian wage-fixing system.

In its recent Submissions to the Living Wage/Safety Net Reviews, the Australian Council of Trade Unions (ACTU) has argued that budget standards provides 'a relevant indicator of needs' (ACTU, 2000: 104) that can guide living wage determinations and has based its claims partly on evidence produced by research on budget standards. Although its use of that research has been criticized by government (see, for example, the arguments advanced in Department of Employment, Workplace Relations and Small Business, 1999), it has had an impact on wage outcomes. Thus, in announcing its decision to increase the federal minimum wage by $19 a week in May 2004, the Industrial Relations Commission (IRC) noted that the updated budget standards included in the ACTU Submission, 'provide an indication that for certain household types, the federal minimum wage is significantly below the amount which is necessary to provide a modest living standard for those households in the context of living standards generally prevailing in the Australian community.' (IRC, 2004: 81).[1]

In drawing on budget standards research in this way, the 2004 IRC Safety Net Review decision echoes earlier attempts to base wage determinations on the estimated cost of household budgets. This article provides an historical overview of earlier attempts to develop budgets for working families as the basis for setting minimum wage levels. In doing so, the discussion highlights similarities in the estimated budgets produced by different studies at different times. It is argued that this similarity implies that the budget standards method is capable of providing more consistent findings than has been claimed by its critics. If there is validity in this claim, budget standards research can be expected to play an important on-going role in informing wage-setting decisions.

The article is organized as follows: Section 2 reviews the historical development of budget standards for working families, focusing on studies undertaken in the 1920s and 1940s. Section 3 describes the role that budget standards has played in the Australian poverty debate more generally, before summarizing key features of the recent budget standards project undertaken by the Social Policy Research Centre (SPRC) in the 1990s (Saunders et al., 1998). Section 4 compares, where this is possible, the SPRC budgets with updated estimates derived from the earlier studies. The main conclusions of the article are briefly summarized in Section 5.

2. An Overview of Earlier Australian Budget Standards Research

The budget standards method was originally developed by Seebohm Rowntree in his pioneering study of poverty in York, England (Rowntree, 1901). Although subsequently neglected for many years in the poverty literature, the budget standards approach has experienced a recent revitalization, based in part on the limitations of alternative methods for setting a poverty line, but also on the fact that the budget standards approach is transparent, can be varied to check the sensitivity of results and has broad intuitive appeal as a way of identifying how much it costs to satisfy basic needs (Bradshaw, 1993a). Reflecting these considerations, budget standards are now used to inform a variety of issues in a broad range of countries, including Canada, the United States, Denmark, Germany, Norway, Sweden, the UK, Hong Kong and Malaysia.

Although the budget standards approach originated in England, it had an immediate and lasting impact in Australia, where it was used to inform decisions about where to set minimum wages. The method was applied by the Commonwealth Court of Conciliation and Arbitration as early as 1907 to determine a basic wage that was 'appropriate to the normal needs of the average employee regarded as a human being living in a civilised community'. Regular updating of the measure continued until the basic wage concept itself was abolished in the 1960s.

In the famous *Harvester Judgement* of 1907, Justice Higgins, President of the Court of Conciliation and Arbitration, set a basic wage by identifying the needs of working families and costing them.[2] Several subsequent official enquiries and independent studies improved the method and its application to determining and adjusting minimum wages. The last of these took place in the 1940s, although, in the 1960s, researchers at Melbourne University set a poverty line equal to the basic wage (plus family benefits for those with children) (Henderson, Harcourt and Harper, 1970).[3] That poverty line was modified slightly and used by the Poverty Commission in the 1970s in its investigation of poverty in Australia (Commission of Inquiry into Poverty, 1975), and the 'Henderson poverty line' has since been widely used in Australian poverty studies (Saunders, 1994, 2000). The setting of the original poverty line was partly based on estimated family budgets, this being reinforced by the explicit link to the basic wage that itself reflected judgements based on earlier budget studies.

In the six decades between the *Harvester Judgement* and Henderson's original poverty study, several other attempts were made to develop and cost household budgets. The report of an *Inquiry into the Cost of Living in Australia in 1910–11*, undertaken by the Commonwealth Bureau of Census and Statistics (now the Australian Bureau of Statistics, ABS), was published in 1911 (Knibbs, 1911). In 1919, following controversy over the level of the basic wage reflecting the imperfections of its adjustment to movements in retail prices, a Royal Commission on the Basic Wage (RCBW) was established under the Chairmanship of A. B. Piddington (RCBW, 1920). The Commission estimated that the cost of living of 'a man with a wife and three children under fourteen years of age' was around 50 percent higher than Higgins's Harvester standard – an amount which according to the Commonwealth Statistician of the time (Knibbs) would, if paid to workers, have more than absorbed the nation's entire national income.[4]

In 1941, Melbourne University economist Wilfred Prest undertook a project on household budgets, which was completed in 1945 but not published until some years later (Prest, 1952). That study adopted a limited form of the Rowntree methodology to cost minimum food and clothing budgets for a sample of Melbourne households. The author also produced estimates of poverty by comparing 'available income' (income after the payment of rent) with a budget that excluded housing costs (Prest, 1952: Chapter X) – an idea that was to be taken up later in Henderson's work on poverty.[5]

The 1920 Royal Commission

In an initial attempt 'to get as much light as possible on the current habits and standards of the people', the 1920 Royal Commission distributed over 9000 household budget forms requesting detailed information on spending patterns over a four-week period (RCBW, 1920: 18). The response was disappointing. Only about 400 forms were returned (a response rate of less than 5 percent), and examination of these showed them to be ineffective in determining even the general level of expenditure of the household with any reliability. As a result, the Commission decided to make use of the returns 'not as guides to what the standard of living ought to be, but as affording indications of tendency in the distribution of expenditure' (RCBW, 1920: 18).

The Commission then set out to identify what was required to obtain the 'reasonable standard of comfort' used in the *Harvester Judgement* and to estimate what it would cost to achieve such a standard – in other words to develop a normative budget standard. The standard itself was intended to approximate 'such standards of comfort as are attained, according to general usage, in a household which lives moderately and without either privation or extravagance' (RCBW, 1920: 18). Three alternative specifications of this standard were considered, a *pauper or poverty level*, a *minimum of subsistence level*, and a *minimum of health and comfort level*.

Of these, the third was selected as providing the measure that corresponds most closely to one that 'will provide real but moderate comfort' in each dimension of the household budget. The chosen standard was based upon the concept of a level of 'minimum health and comfort' developed by the US Department of Labour. That standard was described as representing:

> . . . a slightly higher level than that of subsistence, providing not only for the material needs of food, shelter, and body covering, but also for certain comforts, such as clothing sufficient for bodily comfort and to maintain the wearer's instinct of self-respect and decency, some insurance against the more important misfortunes – death, disability and fire – good education for the children, some amusement, and some expenditures for self-development . . . It [is] intended to establish a bottom level of health and decency below which a family can not go without danger of physical and moral deterioration. (RCBW, 1920: 17)

Like the Australian Harvester standard, the US 'health and decency' standard issued by the Bureau of Labour Statistics (BLS) in 1920 also applied to a family of five (Watts, 1980: 2; see also Citro and Michael, 1995).

The Royal Commission developed detailed housing, clothing and food budgets. The housing budget was based on the average rent for a five-roomed house 'of a reasonable standard of comfort' in each of the major State capital cities. The clothing budget involved identifying the requirements for a reasonable standard of comfort for each individual, pricing each identified item, assigning to each an expected 'duration' or lifetime, and then deriving an implied annual cost by amortising the purchase price over the assumed lifetime.[6] An across-the-board reduction in clothing prices of 3 percent was allowed to reflect the cheaper clothing items bought by many households in sales or on promotion. The food budget was built up from data on the calorific requirements of each household member, these calculations being compared with the actual budget returns 'in order to insure that the necessary number of calories should be obtained by a diet which was in conformity with the ordinary habits of the people' (RCBW, 1920: 36).[7]

A number of additional items were added to produce the final budgets. These included expenditures on fuel and lighting, and groceries other than food, an allowance for the renewal of certain household items, spending on union and lodge dues, medical and dental costs, domestic assistance, recreation, amusement and library costs, fares, costs of haircuts and school requisites.[8] These additional items accounted for less than one-fifth of the total budget (see Table 3).

The 1940s Melbourne Study

Although the general approach adopted by Prest in the 1940s was similar to that used by the Royal Commission some 20 years earlier, there were important differences. One of these reflects Prest's decision to exclude housing costs because of the difficulties of estimation, particularly in the case of owner-occupiers. In the light of these difficulties, Prest decided:

> . . . to abandon any attempt at assessing the cost of minimum housing needs, and to secure comparability between the incomes of the various classes of occupiers by

> deducting actual expenditure upon housing from the incomes of purchasing owners and tenants. (Prest, 1952: 65)

The budgets developed by Prest covered two main areas – food and clothing – with a 'miscellaneous' category that included a number of unspecified household items.[9] The underlying standard adopted was less generous than that used by Piddington, as Prest himself emphasized:

> Thus our standard does not purport, like the Piddington standard, to be an optimum or even a desirable objective of social policy, and in particular it is not suggested that all those whose incomes are sufficient to provide these minimum needs have reached a desirable standard of living. All that is asserted is that those whose net incomes are normally insufficient to provide such needs are living in 'poverty', in the sense that they must be either inadequately fed or inadequately clothed, unless they are assisted by public or private charity. (Prest, 1952: 66)

The Prest standards thus correspond more closely to the 'pauper or poverty' levels, or to the 'minimum subsistence' levels discussed (but rejected) by Piddington. This is borne out by the budgets themselves, which fall well short of those developed by Piddington.[10]

3. An Australian Budget Standard for the 1990s

It is apparent from the above description that budget standards research in Australia is well developed and has exerted an influence on minimum wage trends, as well as on poverty research (where the potential impact on family incomes is broader than just working families). There has also been something of a reversal of the directions of impact. Unlike in earlier decades, when the implied chain of causality ran from budget standards to the basic wage and from there on to poverty, over the last decade, the impetus to use budget standards to inform wage-setting decisions has resulted from developments in the literature on poverty measurement. However, the role that research on budget standards has played in measuring poverty has not been free of criticism.

A report on poverty measurement undertaken in the late 1970s by the Social Welfare Policy Secretariat (SWPS) criticized the budget standards method because of its reliance on 'arbitrary judgements' which could, it was claimed, be used to construct budgets to 'show almost anything' (SWPS, 1981: 36). That SWPS report also failed to discover any degree of agreement among welfare agencies as to what constitutes a 'minimum decent budget', casting further doubt on the practicality of the method. Despite this negative assessment, researchers have argued that there is a role for budget standards in studies of poverty and living standards, because they make explicit the value judgements that are required to estimate how much is needed to support a given standard of living, over time and for different households at a point in time (Bradshaw, 1993b).

The origins of the revival of interest in Australian research on budget standards in the 1990s can be found in a broader project on the adequacy of social security payments undertaken by the Department of Social Security (DSS, 1995), which identified two complementary approaches to the adequacy issue. The first, *descriptive* approach involves comparing the living standards of different groups of DSS clients and other low-income households in order to derive implications about the relative adequacy of different classes of payment and other incomes.[11] The second, *prescriptive* approach is designed to provide a normative benchmark against which the adequacy of payments can be assessed. Of the alternative prescriptive methodologies considered in the DSS report, preference was given to budget standards, despite its acknowledged limitations.[12]

The DSS was keen to emphasize that the main purpose of a budget standard is to estimate the budget needed to purchase the goods and services required to satisfy the normatively determined needs that correspond to a given standard of living, not to determine how incomes should actually be spent. A budget standard estimates the income required to provide people with the *opportunity* to meet their needs, but does not attempt to prescribe *actual* consumption patterns.

The development of a set of indicative budget standards was commissioned by DSS to SPRC, who undertook the study between 1995 and 1998. Two separate budget standards were derived in the SPRC research (Saunders, 1998; Saunders et al., 1998). The *modest but adequate standard* is one which affords full opportunity to participate in contemporary Australian society and the basic options it offers. It is seen as lying between the standards of survival and decency and those of luxury as these are commonly understood, and describes the situation of a household whose living standard falls somewhere around the median standard of living experienced within the Australian community as a whole.[13]

The *low cost standard* represents a level of living which may require frugal and careful management of resources but still allows social and economic participation consistent with community standards and is sufficient to enable the individual to fulfil community expectations in the workplace, at home and in the community. The low cost standard describes a level below which it becomes increasingly difficult to maintain an acceptable living standard because of the increased risk of deprivation and disadvantage. In round terms, the low cost budget can be thought of as corresponding to a standard of living that is achievable at about one-half of the median standard for the community as a whole.[14]

The SPRC study developed budgets at one or both of these two levels for a broad range of households that varied by size (number of adults and children), structure (age and workforce status) and housing tenure (owner, purchaser, or renter). All households were assumed to live in Sydney and the budgets were costed using 1997 prices. The standards drew upon a vast array of information including existing normative standards (of nutrition, housing size and quality, safety and product quality) and incorporated behavioural data on actual expenditure patterns where norms had not been established. Preliminary results were validated using data from the ABS *Household Expenditure Survey* and were also revised in the light of feedback provided by a series of focus groups comprised of individuals in each relevant household type.

The SPRC budget standards have not been used by government to assess (and vary) the adequacy of income support payments, reflecting changed policy priorities following the election of the Coalition Government in 1996 to replace the ALP Government that commissioned the original research. However, the estimates have been used in studies of the costs of children (Saunders, 1999), the cost of contact by non-custodial parents with their children (Henman and Mitchell, 2002), the adequacy of foster care allowances (McHugh, 2002), and the living standards of older Australians (Saunders, Patulny and Lee, 2005). They are also regularly cited by agencies like the Australian Council of Social Services (ACOSS) to support claims that social security payments are inadequate (e.g. ACOSS, 2003).

The new budget standards estimates have, like their predecessors, been subjected to extensive criticism. Included among the criticisms from the Department of Family and Community Services (FaCS) – the re-vamped DSS that funded the original research – are the inherent difficulty of allowing for regional cost variations (particularly in relation to housing – see Mudd, 1998), and the treatment of the ownership and cost of consumer durables (Whiteford and Henman, 1998). These and other limitations imply that different assumptions can produce very different estimates, undermining the policy role of budget standards (Henman, 1998). The Centre for Independent Studies has also repeated the claim that budget standards are arbitrary, and argued that the estimates are biased upwards because they do not allow adequately for choice between alternative items that meet similar needs (Saunders and Tsumori, 2002).

What the critics fail to acknowledge is that a budget standard can play an important role in testing the sensitivity of results to variations in the judgements and assumptions on which it is based: to assert that an estimate is dependent on a specific judgement or assumption does not establish how sensitive it is to different judgements, and hence whether or not it can be accurately described as being arbitrary, as that term is generally understood.

In addition to these general criticisms of the budget standards method, the use of budget standards to specifically identify the needs of the low-paid and assist in setting minimum wages has also come under fire from Hancock (1998), who argues that:

> A benchmark of adequacy *imposes* specificity. But whence do we derive it? There are, it seems, two sources. One entails the specification of items of consumption which people 'ought' to be able to afford. Thus there are dietary requirements, norms for housing, clothing and transport, and allowances for the many items of expenditure that do not fit within these categories. Although subdividing needs in this way may aid thought, the prescription of quantities is, in the end, arbitrary. . . . The alternative has been to relate the measure of adequacy to actually prevailing standards of consumption, perhaps with an upward bias. When translated into prescriptions of wages, it has the

> implication of requiring employers who lag behind contemporary practice to come into line. (Hancock, 1998: 16)

He goes on to argue that attempts to reduce the arbitrary element by using data on actual expenditure patterns, introduces an element of circularity, because the estimate of what is needed then reflects how much is available to spend, confusing need with resource constraints.

Hancock is effectively arguing against the use of normative adequacy standards because they involve making a judgement about need. In their place, he argues that inquiring into what people on low incomes 'actually can and do buy' is preferable to 'the imposition by "experts" of selected regimens of goods and services'. But once such an inquiry has been undertaken, it is still necessary to make a judgement about the adequacy of the items that are purchased before one can determine whether or not they correspond to an acceptable standard of living, or are indicative of poverty. The need for judgement is not avoided, merely shifted, possibly obscured. Hancock appears to want to refrain from using judgements to set an adequacy standard, but is prepared to judge the adequacy of an observed consumption bundle, without specifying the basis on which that judgement is made.

4. Comparisons Between the 1920, 1940s and 1997 Estimates

The above brief overview of how budget standard research spanning almost eight decades has developed in Australia reveals a degree of stability in how a methodology that was first developed in the 1890s has been applied. The steps used to derive a budget standard are the same today as they were when Rowntree first developed them: identification of the goods required to attain a specific standard of living, pricing them to derive a weekly cost figure for each item, and summing these to arrive at the final budget, drawing on external data on actual budgets to locate the standards in prevailing norms and give them greater relevance. The fact that increased data availability and more advanced analytical techniques now allow a more sophisticated application should not conceal the fact that the basic building blocks of the method remain the same as they were a century ago.

However, the key question is whether or not the similarity in *method* has produced a similarity of *results*. Those who criticize budget standards because they embody many judgements and assumptions would presumably expect the estimates to be 'arbitrary' and thus lacking any coherent pattern – particularly those developed from studies conducted at different times, and for different purposes. In contrast, proponents would expect a degree of stability that reflects the underlying consistency in the expert knowledge and data on which the standards are based. Examination of the inter-temporal stability of budget standards estimates across different studies thus provides a test of the viability of the whole approach, and this is the focus of the following analysis.

There are a number of similar features of the three budget standard studies discussed in the previous section. All three developed a food budget from a normatively determined set of nutritional requirements by translating these into a set of menus and then costing them. The approach used to estimate housing costs for renters (and the reasons for treating the housing costs of purchasers with caution) enunciated by the 1920 Royal Commission is replicated in the SPRC study. The clothing budgets also have much in common across the three studies, each identifying and costing a wardrobe appropriate to the general standards of comfort and decency applying at the time, taking into account normal patterns of social custom and interaction. Both the Royal Commission and the SPRC study applied a small discount to the original clothing budget to allow for purchases at discount prices and/or in sales.

There are fewer similarities in the budget areas other than housing, food and clothing, but this is not surprising, since many of these other items are more specifically determined by the customs of a particular era. There is also less detail provided about the treatment of these items in the earlier studies, which compounds the problem of making comparisons. However, many of the additional items listed in the report of the Royal Commission were incorporated in the SPRC study, albeit in a different form, reflecting the increased complexity and prosperity of modern societies.[15]

The budgets developed by the Royal Commission were also intended to support standards of health and comfort appropriate to a level of decency originally articulated by the US Department of Labour. This concept aligns closely with the SPRC modest but adequate standard, although it might be argued that the notion of a modest standard is somewhat more generous than one that affords only comfort and decency.[16] Overall, however, it seems reasonable to assume that the two standards, when assessed in the context of the general standard of living of the time, are sufficiently similar to treat them as being the same, at least as a first approximation.

It has already been noted that the standards developed by Prest in the 1940s were explicitly aimed at a somewhat lower standard than those estimated by the Royal Commission. Prest saw them as approximating a poverty threshold, which suggests that the appropriate point of comparison is with the BSU low cost budgets, although these turned out to be above the poverty line, sometimes well above (Saunders et al., 1998: Table 12.21). Thus, although the most appropriate point of comparison is between the Prest budgets and the SPRC low cost standards, these differences should be kept in mind.

The final issue that needs to be considered before turning to the comparisons themselves relates to household composition. As noted, the early Australian work on budget standards relate to a wage-earning man, his wife and three children. The age of the adults was not specified by the Royal Commission, although the children were assumed to be a boy aged 10 years, 6 months, a girl aged 7 and an 'infant' assumed to be a boy of 3 years, 6 months. Prest estimated his minimum food and clothing budgets for a man and woman (again of unspecified age), as well as for infants under 1 year, a child aged 1–5 years, and girls and boys aged 5–9 years and 10–16 years.

The SPRC budget standards for a couple with three children who are renting privately assume that the man is aged 40, the woman is aged 35 and that they have daughters aged 3 and 6 and a 14-year-old son. The modest but adequate budgets assume that both adults are employed full-time, while the low cost budgets assume that the man is unemployed and the woman is not in the labour force. There are therefore some differences in the assumed characteristics of the individuals in each household, and in the standards to which the budgets are intended to correspond. The most important of these differences are summarized in Table 1.

In order to compare the budget standard estimates, they must first be placed as far as possible on an equal footing. This is no easy task, since each embodies a set of customs and accepted practices that are both time (and place) specific. However, an initial adjustment can be made to reflect changes in aggregate consumer prices (as measured by changes in the Consumer Price Index, CPI).[17] The main problem with only adjusting a budget standard in line with price movements is that this ignores changes in 'the customs of the day', which influence the range, quantity and quality of goods and services needed to attain a particular standard of living in a particular social context. Over the longer-term, a budget standard must be adjusted to reflect not only price movements (which determine the income needed to purchase a *given* basket of goods and services), but also movements in average living standards in the society (which will influence the items that appear in the basket itself).

To allow for this latter consideration, it is necessary to adjust the budget standards for movements in prices *and* to account for improvements in real average living standards in some way. This has been done using data on real (price-adjusted) GDP per capita, which is available for the 1920–97 period to further adjust the price-adjusted budgets. Although data limitations make this an imperfect measure of changes in the community living standards and norms that are embodied in a budget standard, it is preferable to simple price adjustment, which makes no allowance for quality improvements. Movements in consumer prices and real GDP per capita between 1920 and 1997 are shown in Table 2 (which also covers the period 1941–43 when Prest's budgets were developed).

The Royal Commission budget for a three-child couple household living in Sydney in 1920 was estimated to be \$11.70 (after converting to decimal currency). If this is updated to February 1997 by the movements in consumer prices shown in Table 2, the corresponding figure for 1997 becomes \$11.70 × 20.913 = \$244.70. The SPRC modest but adequate budget standard for 1997 for a three-child couple renting privately is equal to \$977.50 – almost exactly four times as large. If, however, the 1920 budget is adjusted first by movements in consumer prices and then by movements in real GDP per capita, the corresponding estimate for 1997 becomes equal to \$11.70 × 20.913 × 3.935 = \$962.80 – or within 1.5 percent of the BSU estimate of \$977.51. This similarity can only be described as truly remarkable.

Even if the aggregate budgets are very similar, it is of interest to consider how

Table 1 *Comparisons of three Australian Budget Standards*

	Royal Commisson on the Basic Wage (1920)	Prest (1941–43)	SPRC (1998)
Defining the standard	Minimum standard of health and decency: 'a bottom level of health and decency below which a family cannot go without danger of physical and moral deterioration . . . an amount which will provide real but moderate comfort'.	Minimum needs budget: 'the least common factor of various competing concepts of adequacy . . . those whose net incomes are normally insufficient to provide such needs are living in "poverty", in the sense that they must be either inadequately fed or inadequately clothed, unless indeed they are assisted by public or private charity'.	Modest but adequate: 'One which affords full opportunity to participate in contemporary Australian society and the basic options it offers . . . lying between the standards of survival and decency and those of luxury as these are commonly understood'. Low cost: 'A level of living which may require frugal and careful management of resources but would still allow social and economic participation consistent with community standards and enable the individual to fulfil community expectations in the workplace at home and in the community'.
Household character-istics	Adult man, adult woman, boys (aged 3.5 and 10) and girl (aged 7).	Adult man, adult woman, child (aged 1–5), girl (aged 5–9) and boy (aged 10–16).	Male (aged 40), female (aged 35), girls (aged 3 and 6) and boy (aged 14).
Labour force status	Man (typical of all employees) in full-time employment, woman not in the labour force.	Man in work (details not specified), woman not in the labour force.	Modest but adequate: male and female both employed full time. Low cost: male unemployed, female not in the labour force.
Location and housing tenure	Sydney; rent levels averaged across 35 different suburbs.	Melbourne; excludes housing costs.	Hurstville local government area in Sydney; private renter.

Table 2 *Consumer prices, real GDP, population and unemployment: 1920–1997*

Year	Consumer Price Index (CPI) (1920 = 100)	GDP ($ million, 1966–67 prices)	Population ('000)	GDP per capita (1920 = 100)	Unemployment rate (%)
1920	100.0	4624	5304	100.0	3.3
1941	86.4	8218	7069	133.3	4.9
1942	94.2	9423	7144	151.3	1.9
1943	98.1	10244	7197	163.3	1.0
Average, 1941–43	92.9	9295	7137	149.4	2.6
1997	2091.3	63624	18548	393.5	8.8

Sources: *Year Book Australia, 1998* (ABS Catalogue No. 1301.0), ABS *Population Projections, 1995–2051* (ABS Catalogue No. 3222.0), ABS *Labour Force Survey, February 1997* (Catalogue No. 6302.0) and Maddock and McLean (1987), Statistical Appendix.

their composition has changed over the period. The updating method applied above implies that such a comparison is of only limited relevance because it does not allow for variations in relative prices, or for any change in the items included in the budgets. Nevertheless, the compositional comparisons shown in Table 3 provide an insight into how living standards and costs have changed between 1920 and 1997, bearing in mind that the budget standards themselves refer to a common standard across each of the different budget areas.[18]

Not surprisingly, one of the biggest compositional differences revealed in Table 3 is in the proportion of the budget spent on food, which declines as a proportion of the total budget, from 41.6 percent to 22.6 percent between 1920 and 1997, reflecting the increased living standards over the period. Interestingly, the other main budget area whose spending importance has declined is clothing and footwear, which fell from 23.1 percent of the total budget in 1920 to 8.5 percent by 1997. Together, the proportion of the budget allocated to the three most basic needs – food, shelter and clothing – declined from around five-sixths (83.5 percent) in 1920 to just over one-half (52.9 percent) in 1997.

Offsetting these declining budget shares, the main areas where expenditure increased in proportionate terms are household goods and services (which includes areas such as childcare and education expenses in the SPRC budgets), transport (reflecting the ownership of a car which is factored into the SPRC budgets), leisure (reflecting increased home-based and external recreational activity), and personal care. All of the areas where spending has risen more than proportionately reflect a broadening of the range of goods and services now available to people, and the degree to which the modern budget standard attempts to incorporate them.

The Prest budgets were derived over the 1941–43 period and have been adjusted in line with price and GDP movements between the average of these

Table 3 *Comparing the 1920 and 1997 budget standards ($1997)*

	1920		1997	
Budget Area	**($)**	**(%)**	**($)**	**(%)**
Housing[a]	2.200	18.8	213.21	21.8
Clothing and footwear	2.700	23.1	83.12	8.5
Food[b]	4.873	41.6	220.90	22.6
Fuel and light	0.463	3.9	17.28	1.8
Household goods and services[c]	0.738	6.3	217.43	22.2
Medical and dental	0.075	0.6	18.96	1.9
Leisure[d]	0.300	2.6	65.61	6.7
Transport[e]	0.333	2.8	100.75	10.3
Personal care[f]	0.025	0.2	40.25	4.1
Total	11.707	100.0	977.51	100.0

Notes: [a] The estimate for 1920 includes only rent. The 1997 estimate also includes the cost of building and contents insurance. [b] The food budget for 1920 includes an allowance for smoking. [c] The estimate for 1920 includes groceries, renewal of household supplies, school requisites, domestic assistance and union and lodge dues. [d] The estimate for 1920 includes recreation expenses, plus the cost of newspapers and magazines and stationery and stamps. The latter two items are included in the household goods and services budget in 1997. [e] Estimate includes fares only in 1920. [f] Estimate includes the cost of barber only in 1920.

three years and February 1997.[19] On these assumptions, the minimum food and clothing budgets estimated by Prest for the December Quarter 1941 and the March Quarter 1943 are equal to $5.93 and $6.96, respectively (Prest, 1952: Table XXXI), which produces an average 'basic needs' budget in 1942 of $6.44.[20] It has already been noted that Prest regarded his minimum need budgets as more austere than those developed by the 1920 Royal Commission. The figures bear this out, although the difference is not great. If the combined Royal Commission food and clothing budgets are updated by movements in consumer prices to 1942, the resulting figure is $6.98, almost identical to Prest's estimate for 1943, but 8.4 percent above the average figure for 1942.[21] Thus, Prest's estimates are on the low side, though not markedly so.

If the Prest minimum need budget is updated in line with movements in consumer prices to February 1997, the resulting figure is $145.10. If they are further adjusted upwards to reflect movements in real GDP per capita, this figure increases to $382.10. The corresponding food and clothing and footwear components of the SPRC low cost budget standard for a three-child couple renting privately in February 1997 is equal to $237.30 – well in excess of the price-adjusted Prest estimate, but well below that adjusted for movements in prices and real incomes.

If the food and clothing components of Prest's budget are considered separately, the (price) updated estimates for 1997 are $97.20 (food) and $47.80 (clothing). The corresponding SPRC estimates are $172.15 and $65.25, respectively. Thus, the austerity of the Prest budgets mainly reflects his estimate of food costs relative to the current cost of purchasing a nutritionally adequate diet. This may reflect the impact of policies (such as direct price controls and food rationing), which were designed to keep food prices to a minimum in the 1940s as part of the war effort.

5. Summary and Conclusions

This article has described and compared the results produced from over eight decades of Australian research on budget standards, focusing on their role in setting minimum wages for working families. The most striking feature of the results reported is their stability, relative to the broad economic conditions that prevailed when they were developed. The results suggest, for example, that the budget standard developed in the 1920s to guide the setting of a basic wage, when updated by movements in prices and real incomes, is virtually identical to that developed by SPRC almost 80 years later.

Some will argue that this similarity is nothing more than a coincidence, given the differences in how the budgets were originally constructed and what items were included. It is nonetheless remarkable that the results produced by a methodology that has been widely condemned for being arbitrary should turn out to be even remotely consistent over such a long period. At the very least, this suggests that the claims that budget standards are necessarily arbitrary should be treated with a degree of caution. The fact that two studies separated by eight decades of substantial economic development and massive social and attitudinal change produce such similar results suggests that, in practice, the use of normative judgements does not *automatically* make a budget standard inherently arbitrary, as many critics have argued.

In effect, what appears to have happened is that those who have had to make the judgements on where to set a budget standard, have done so in consistent ways which reflect the economic and social circumstances of the time (as reflected in price levels, real incomes and customary practice), with the result that the budgets required to achieve a *given* standard of living differ only to the extent that prices and real incomes have, on average, changed. Thus, even given that real living standards have changed, the cost of purchasing the items required to achieve a given standard of living as articulated in the definition of a budget standard that reflects prevailing social custom and existing behaviour has remained broadly unchanged over time.

This suggests that income adequacy benchmarks that are specified as a percentage of mean or median income (a common practice in modern poverty research) may also, if the percentage selected is chosen carefully, be less arbitrary than is often claimed. The problem here is deciding on the appropriate percentage, a decision that flows automatically from how needs are specified and costed when developing a budget standard. More fundamentally, the results presented here indicate that budget standards have the potential to provide valuable insights into the determination of the adequacy of wage levels, and of incomes and living standards generally. They are not perfect, nor do they resolve all of the complex problems associated with defining adequacy, but they have an important role to play in informing decisions made by bodies like the Industrial Relations Commission.

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Notes

1 The updated estimates cited in the ACTU Submission are contained in Saunders (2004).

2 The 1907 *Harvester Judgement* set the basic wage at 7 shillings per working day, or 42 shillings per week. Justice Higgins arrived at this figure by studying the actual budgets and living costs of nine families containing between one and seven children (Macarthy, 1969: Table 2). Since the nine families contained an average of just over three children, the rounded figure of 42 shillings per week was seen as applying to a family of two adults and three children. It is not easy to derive the daily average figure of seven shillings from the actual family budgets used by Higgins – most calculations producing a somewhat higher figure (Macarthy, 1969). This and other ambiguities in the data used by Higgins, plus the fact that the household budgets themselves are not sufficiently detailed to allow comparison with later estimates, explain why they have not been included in the comparisons presented later.

3 The links between minimum wage determination and poverty research, and the impact of both on the determination of means-tested social security benefit levels explain why writers such as Castles (1985) have described Australia as a 'wage earner's welfare state'.

4 The claim was made in a Memorandum prepared by the Commonwealth Statistician to the Prime Minister – see Piddington (1921: 22) and Hancock (1998). Subsequent work by Piddington (1921) led him to propose the introduction of child endowment as a necessary complement to the basic wage, a suggestion that prompted the introduction of a modest scheme of child endowment for the federal public service some 20 years before universal child endowment was introduced in 1941.

5 Estimates of the extent of after-housing poverty still feature heavily in Australian poverty research (see Harding and Szukalska, 2000; King, 1997).

6 This is identical to the procedures used in contemporary budget standards studies (Bradshaw, 1993b; Saunders et al., 1998).

7 A single food budget was estimated for an adult male and then used to derive the corresponding budgets for a woman and children using a 'nutritional equivalence scale' which expressed the calorific requirements of women and children as percentages of those of the man, with the family's total needs being expressed in 'man-units', or what would now be called 'equivalent adults' (RCBW, 1920: 35).

8 Many other items were also considered for inclusion in the calculated budgets, but eventually rejected; see RCBW (1920: 45–8).

9 The 'miscellaneous' category accounted in round terms for between one-quarter and one-third of the food and clothing budgets estimated by Prest (the difference depending upon the year of estimation).

10 It also needs to be emphasized that Prest's estimates only applied to households living in Melbourne. Prest (1952: 66) also acknowledged that his clothing standards were below

the 1942 clothing ration that applied in war-time Australia.

11 This strand of research was developed in a pilot project undertaken by Travers and Robertson (1996).

12 These were seen to reflect its focus on the material aspects of well-being, the large number of subjective decisions required to develop a budget standard, and the time needed to develop and maintain the standards themselves (DSS, 1995: 23–4).

13 The modest but adequate standard was first used by the US Bureau of Labour Statistics in 1948, where it was described as sufficient 'to satisfy prevailing standards of what is necessary for health, efficiency, the nurture of children and for participation in community activities' (quoted in Bradshaw, 1993a: 4). It corresponds to the *prevailing family standard* developed later by the Watts Committee in the US (Watts, 1980).

14 The low cost standard embodies elements of both the *social minimum standard* and the *lower living standard* developed for the US by the Watts Committee (Watts, 1980: 59).

15 One item included in the Royal Commission budgets but not in the SPRC study is the cost of smoking (which amounted to the equivalent of 40 cents a week). The SPRC budgets assume a healthy lifestyle and that individuals are in, and maintain, good health, and so exclude expenditure on tobacco. The 1920 budgets also included a small allowance for 'domestic assistance' that does not appear in the SPRC standards.

16 This is consistent with the modest but adequate standard being described as 'lying between the standards of survival and decency and those of luxury as these are commonly understood'.

17 Ideally, separate price indices should be applied to each budget area to allow for variations in relative prices, although in practice the lack of commodity-specific price indices for Australia that extend back to 1920 prevents this from being a practical option.

18 It should be noted that there are differences in the coverage of some of the budget categories between the two studies, and although an attempt has been made to account for these, it is possible that some differences remain.

19 For comparative purposes, the updated Prest budgets have been constructed on the assumption that the household consists of husband, wife, girls aged 1–5 and 5–9 and a boy aged 10–16. The ages of the children are as close as possible to those specified in the SPRC study.

20 The Prest minimum needs budget also include an allowance for 'miscellaneous items' which add approximately 30 percent to the food and clothing budget (Prest, 1952: Table XXXII). However, because no detail is provided on what is included in the miscellaneous category, it was decided to exclude it from the analysis.

21 It is worth observing that the 'updating' of the 1920 budgets to 1942 in fact involves a decline, because as Table 2 indicates, consumer prices actually fell between 1920 and 1942. Table 1 also indicates that there are differences in the assumed characteristics of the children in the Royal Commission and Prest studies.

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