Article

ELRR

The Economic and
Labour Relations Review
2018, Vol. 29(3) 273–288

DOI: 10.1177/1035304618781149
journals.sagepub.com/home/elrr
SAGE

New minimum healthy living budget standards for low-paid and unemployed Australians

Peter Saunders and Megan Bedford
University of New South Wales, Australia

Abstract

A budget standard indicates how much a particular family living in a particular place at a particular time needs in order to achieve a particular standard of living. This article presents new estimates that build on the earlier budget standards produced by the Social Policy Research Centre in the 1990s. The new budgets incorporate increases in consumer prices and community standards and reflect changes in item availability, retail practices and shopping behaviour, as well as improved research methods, 20 years of use and experience, and new data. They are designed to achieve a minimum income for healthy living standard and apply to families with a breadwinner who is either in full-time work and receiving the minimum wage, or unemployed and receiving Newstart Allowance. The estimates suggest that although the minimum wage is adequate for single people, it is not adequate to meet the needs of many couple families with and without children, while Newstart Allowance does not provide an adequate safety net for the unemployed, whatever their family status.

JEL Codes: H55, I18, I30

Keywords

Budget standards, family needs, healthy living, low-paid, unemployed

Introduction

A budget standard indicates how much a particular family living in a particular place at a particular time needs in order to achieve a particular standard of living. It is derived by

Corresponding author:
Peter Saunders, Social Policy Research Centre, University of New South Wales, Sydney, NSW 2052, Australia.
Email: p.saunders@unsw.edu.au

specifying every item that is needed by the family and each of its members, pricing each item and summing to produce the overall budget. The items included, how much they cost and how long they last will vary according to the standard of living that the budget is designed to support. Any budget is thus only relevant to a particular standard – hence the term budget standard. The standard itself can (in principle at least) be set at any level, although budget standards have traditionally been designed to represent minimum standards by estimating how much is needed to achieve an acceptable but minimal standard of living.

Research on budget standards has a long history, dating back over a century to when Seebohm Rowntree (1901) first used the approach to cost family needs as the basis for his poverty line. In Australia, that approach was taken up soon after by Justice Higgins who used it to cost a family budget as the basis for what became the 'Harvester Judgement' (Hancock, 2004) and was the subject of a Royal Commission in the 1920s (Commonwealth of Australia, 1920). After many decades of neglect, the budget standards approach was revitalised by Bradshaw (1993), and since then, it has received increasing international attention from researchers and policy-makers as a tool for informing adequacy assessments. The enduring appeal of the approach reflects its common-sense and methodical way of establishing how much is required to satisfy a family's material and social needs.

This approach is reflected in a recent speech by Australian Council of Trade Unions (ACTU) Secretary Sally McManus, in which she claimed that 'the promise of the Harvester Judgement … has been completely eroded by decades of neo-liberal policies'. McManus called for a substantial increase in the minimum wage, arguing that

> A living wage musty be sufficient to ensure that all working people are able to afford rent in a suitable dwelling, a healthy diet, a good quality education, healthcare, transport, electricity and other energy costs, adequate clothing, entertainment and a contingency for unexpected expenses. (ACTU, 2017: 1)

She was in effect advocating using a budget standards approach to establish how much is needed to return the minimum wage to an acceptable level in current circumstances.

Against this background of growing interest in the approach, this article describes a recent study that reviewed, revised and updated the budget standards originally produced by a research team at the Social Policy Research Centre (SPRC) in the 1990s (Saunders et al., 1998). The new standards are relevant to a range of families where the main (in most cases male) breadwinner is in one of two labour force situations: in full-time work and receiving the minimum wage, or out of work and receiving income support in the form of Newstart Allowance (NSA) – the main form of income support for the unemployed in Australia. The aim of the study was to produce new estimates for use in assessing the adequacy of two of the cornerstones of the Australian social safety net: the minimum wage and NSA.

The article is organised as follows. The following section provides a brief overview of the budget standards methodology while the next section outlines the methods used to develop the new budget standards and describes how they differ from those developed earlier. The new estimates are then presented and compared with other adequacy benchmarks and existing safety net provisions. The final section summarises the main conclusions.

The methodology of budget standards

A budget standard is based on three forms of information: normative data (and judgements) provided by experts that describe human needs and the commodities (or activities) required to satisfy these needs at a minimal standard, behavioural data that describe what people actually spend their money on and experiential data that capture the details of how low-income individuals actually spend their money. Data relevant to these latter two elements are derived from social surveys and focus group discussions, respectively, since these are the appropriate analytical tools for accessing the required information. All three elements are important if the budgets are to reflect existing knowledge about human needs, expenditure patterns and shopping decisions and practices. There is, however, ongoing debate about how much weight should be assigned to the different forms of evidence, with some studies (particularly in the UK) giving a greater deliberative role to the focus group discussions and placing more weight on those findings.[1] However, most would agree with Deeming (2017) who has argued that '… methodological pluralism should prevail. There is strength in the different budget approaches; all are varied, and arguably, needed' (p. 44).

Australian experience with using budget standards in the wage-setting context has not resulted in agreement on how best to apply the methodology, although there is broad agreement that the approach has much to contribute. The Australian Catholic Council for Employment Relations (ACCER) has argued, for example, that

> Indisputably, the best evidence in Australia about the needs of low income families is in the budget standards research of the SPRC [Social Policy Research Centre] … they are capable of providing a reference point, but not a standard, for low paid workers and their families. (Lawrence, 2015: 127)

The Australian Fair Work Commission (FWC, 2014) has also acknowledged the value of budget standards, albeit more guardedly, noting,

> We accept that contemporary budget standards measures can provide an effective means of measuring the needs of the low paid, which can be considered together with other relevant data. (Para 390)

Nevertheless, support for the approach in other contexts has waned in the face of criticism that it relies heavily on arbitrary judgements that exert a powerful influence on the results produced. However, it is difficult to see how any attempt to derive benchmarks that can be used for assessing adequacy can fail to contain normative elements. This view is reinforced by studies conducted by Australian Government agencies over the past three decades that have consistently defined adequacy in terms of 'providing a basic acceptable standard of living, accounting for prevailing community standards' (Harmer's (2009) Pension Review: xii–xiii; see also Saunders and Wong, 2011, for a wider review).

Giving practical effect to this conceptual definition involves giving operational meaning to phrases such as 'basic acceptable' and 'prevailing community standards' that are inherently normative and thus require judgements to be made.

The fact that any such judgements will always be open to debate does not negate the need for budget standards research. Its value lies in its unique ability to highlight the choices that have to be made, set out possible alternatives, provide a systematic framework for choosing among them and examining the impact of different choices on the results produced. These features are inherent in other approaches to setting adequacy benchmarks such as poverty lines, although their importance is often ignored or obscured by the use of simple judgements that drive the results produced. Thus, for example, shifting the poverty line from 50% to 60% of median income will result in a decline in the adequacy of social benefits, but only because the judgement used to identify poverty has changed.

The budget standards approach has been modified to address these and other weaknesses, to incorporate improved research methods and better data improvements, and to reflect the experience gained with their development and application. The application described here continued to use the three basic ingredients identified above – normative, behavioural and experiential. It did not, however, assign a greater role to focus groups but instead utilised the better range and quality of behavioural data that exist today compared with when the original study was conducted two decades ago. Further details of what this involved are provided in the following discussion.

Developing the new budget standards: Similarity and difference

Users of budget standards understandably want the estimates to be relevant to current circumstances, that is, to reflect 'prevailing community standards'. Updating the original SPRC budgets to take account of changes in consumer prices will ignore improvements in overall living standards or changes in item availability, retail and shopping practices and other behavioural norms.[2] One commonly used measure of overall living standards – household disposable income per head of population (HDIPC) – increased almost two and a half times (or by 248%) between 1994–1995 (when the original SPRC budgets were priced) and 2013 (when those presented here were initially priced). It is hard to believe that a change of this magnitude in the average level of economic prosperity will not have had a profound impact on what is regarded as an acceptable minimum standard of living and thus on the items required to support that standard.

Adjusting budgets in line with movements in the Consumer Price Index (CPI) and its components will not take account of these changes (except indirectly, as the CPI weights are revised) with the result that the updated budgets will slowly drift apart from current realities. This divergence is particularly an issue in relation to the setting of the minimum wage, where contemporary relevance is critical. It was recognised by the FWC (2014), which followed its positive assessment of the role of budget standards research cited earlier by noting that

> [T]he budget standards measures derived from the 1997 SPRC study (sic) do not provide useful contemporary information about the needs of the low paid. (Para 390)

This assessment highlights the pressing need to review and revise (not just update) the original SPRC budget standards.[3]

The initial aim of the new research was to limit the extent of any major divergence from the original study in order to maintain comparability. In some areas, this was straightforward, including, for example, the use of 'rules of thumb' (see Saunders et al., 1998: 67–73) to provide a consistent approach when deciding whether or not to include an item. In other areas, replicating what was done before was more problematic – often because a review of the methods used in the original study suggested that a new approach was needed or because the availability of better data allowed improvements to be introduced.

The most significant change relates to the standard to which the budgets were tied since this determines which items to include and how much they cost. Two separate standards were used in the earlier SPRC study, both drawing on the work of American economist Harold Watts (1980). The first, the Modest but Adequate (MBA) standard, was intended to provide access to available economic and social opportunities, corresponding to a level of decency between survival and affluence and falling around the median (midpoint) of living standards in the community as a whole. The second, the Low Cost (LC) standard, was intended to capture a minimal standard of living that requires the frugal use of resources but still allows a degree of economic and social participation, in practice, falling at around one-half of the median. Translating these two standards into actual budgets proved difficult because of the over-determination implicit in specifying both what each standard represents *and* where it falls in the overall distribution.[4]

The MBA and LC standards were thus replaced by the Minimum Income for Healthy Living (MIHL) standard that has emerged from the UK public health literature (Morris and Deeming, 2004; Morris et al., 2010 see also O'Sullivan and Ashton, 2012, for an application to New Zealand). The basic idea of healthy living is that all family members (adults and children) are able to maintain the healthy lifestyle required to participate fully in their roles as workers, consumers and citizens. The MIHL standard thus has relevance to the social inclusion agenda because poor health and disability are barriers to economic and social participation while also being consistent with broader individual and societal objectives relating to the promotion and maintenance of good health. This approach is consistent with that adopted in the European Union Reference Budgets study, where the targeted living standard is defined as having

> … the minimum financial resources required to participate adequately in society. Adequate social participation is further defined as the ability of people to adequately take and make the various social roles one should be able to take as a member of a particular society. (Goedemé et al., 2015: 23)

Clearly, this does not mean that the MIHL standard is the only option available, although the limitations of the MBA and LC standards are now generally accepted among budget standards researchers and the MIHL standard is one of the few alternatives that has been used. The estimates that follow thus represent an initial attempt to examine the strengths and pitfalls associated with applying the MIHL standard in the Australian context.

Once the standard has been set, the budgets themselves have to be constructed by the painstaking task of identifying and costing items, many of them at the individual level but others at the household level, and then aggregating to obtain the family budget.

Another important difference in approach involved developing budgets for 'average' families rather than (as before) 'hypothetical' families. The use of the latter concept in the original study necessitated specifying where the family lived and, from this, identifying the type and size of dwelling (and its cost) and constructing a transport budget by mapping the various trips it would have to make (to local schools, health facilities, employment offices and so on). Both aspects created practical problems and made the final budgets too dependent on the specifics of the chosen area, such as the nature of the local housing market and the availability of public transport. These problems made it difficult to refute claims that the budgets were not able to serve as general benchmarks, even for families of a given type. The use of the average family avoids these limitations, and although it gives more weight to the behavioural element of the budget (and to data derived from social surveys), this was seen as a reasonable price to pay to achieve greater relevance and applicability.

A concerted effort was made to engage directly with low-income people through focus groups run with unemployed and low-paid individuals. The aim was to better ground the budgets in the realities of everyday experience for those at the cutting edge of social disadvantage by getting feedback on the budgets (both the items included and their cost) and ensure that they reflected what is happening 'on the ground'. While this approach proved to be very helpful in relation to focus groups with unemployed people, it was far harder to recruit participants from among low-paid workers because many were working unstable and unpredictable hours and could not commit to a specific meeting time, while finding a common meeting place presented further challenges. In contrast, the unemployed were required to meet regularly with their job service provider and (with considerable assistance from these providers) were able to be brought together on two separate occasions for the relevant discussions. However, although the focus group input ended up diverging from what was planned, the discussions that did take place provided a range of important information that was used to develop the new budgets (as explained further below).

The variation in housing costs referred to above is a major obstacle to developing a representative housing budget. While variation across dwelling types is to be expected in a budget standards context (because larger families require dwellings with more rooms), the cost of a given dwelling also varies with tenure status and, importantly, location. The former can be avoided by focusing on one tenure type (in this case renting privately, where market data are plentiful and reliable), while the latter creates problems for all adequacy benchmarks. In the earlier study, families were located in Sydney and this led to a chorus of criticism that the budgets were exaggerated by Sydney's high housing costs. In order to avoid this problem, this time the budgets were first derived excluding housing and were then 'grossed-up' to include housing costs based on the average rents for different dwellings located in different suburbs in Australia's three largest cities – Sydney, Melbourne and Brisbane. The rent estimates were based on data extracted from the market facts reports produced by the Real Estate Institute of Australia (REIA, 2016).[5] Having first established the dwelling type for each family based on the number of

https://doi.org/10.1177/1035304618781149 Published online by Cambridge University Press

bedrooms needed, the researchers then assigned families to a suburb within each city and added average rents in those suburbs to the non-housing budgets. This approach is transparent and leaves it open to others to use different assumptions when applying the REIA data without having to discard the effort that has gone into constructing the other budget components.[6]

Two offsetting factors impacted the choice of lifetimes assigned to long-lasting (durable) items in the budgets. The first is built-in obsolescence, which over time reduces lifetimes and thus increases the weekly cost of durables. Against this, the focus groups provided many examples of strategies used to extend the lifetimes of items, particularly items of children's clothing, where free exchange was a common way of handing on (and receiving) clothing that children had outgrown. Lifetimes for household white goods and furniture were also assumed to vary with the presence of children, with items assumed to wear out more quickly when children are present. The balance between these competing forces was that, overall, the lifetimes included in the new study are shorter than those used originally.

The new budgets are minimal and conservative, being based on the lowest cost option whenever alternatives were available. Experience with the use of the original budgets dictated that 'tight' budgets would gain greater credibility than those that erred on the side of generosity – as long as this did not prevent the family and its members from achieving the MIHL standard.

The new budget standards

New budget standards were derived at the MIHL standard for families where the main breadwinner was either in full-time work (in part-time work in the case of the sole parent) and being paid the minimum wage, or out of work and receiving NSA.[7] For convenience, these two groups are referred to henceforth as the low-paid and unemployed families (or budgets). Budgets were derived for five basic family types: single people (males and females separately, although only the average, gender-neutral version is discussed here); couples without children; couples with one and two children; and a (female) sole parent with one child.[8] Male adults are assumed to be aged 40, female adults aged 35, while the first child in each case is a 6-year-old girl and the second child a 10-year-old boy.[9] Families with either no or only one adult in (low-paid) employment are located at the bottom of the working-age income distribution although it is difficult to provide exact estimates because of the small numbers involved in, for example, the 2009–2010 Household Expenditure Survey (HES), that have similar demographic characteristics to those assumed here (see Saunders and Bedford, 2017: Table C.1)

The new budgets were originally priced in the latter half of 2013 in leading national supermarkets such as Woolworths and Kmart, although the budgets were refined as items were adjusted, added or removed between then and early 2016. Each time this was done, new prices were obtained, but they were then deflated back to the original pricing window. Once the entire budgets were finalised, they were updated to the June Quarter of 2016 in line with movements in the relevant CPI components.

The new low-paid and unemployed budgets and budget shares ('grossed-up' to include housing costs) are presented in Tables 1 to 3 for each family type. The budgets highlight the importance of housing costs, which account for between 39% and 53% of the low-paid

Table 1. New budget standards for a single person and a couple with no children, June 2016.

Budget category	Single person				Couple with no children			
	Low-paid		Unemployed		Low-paid		Unemployed	
	(AUD)	(%)	(AUD)	(%)	(AUD)	(%)	(AUD)	(%)
Food	61.80	10.35	58.71	13.54	123.60	14.83	117.42	17.78
Clothing and footwear	10.81	1.81	5.13	1.18	15.77	1.89	10.25	1.55
Household goods and services	79.23	13.26	68.37	15.77	99.59	11.95	88.28	13.37
Transport	77.71	13.01	44.24	10.20	120.75	14.49	84.94	12.86
Health	7.33	1.23	6.08	1.40	14.45	1.73	11.94	1.81
Personal care	15.59	2.61	12.86	2.92	27.04	3.25	25.22	3.82
Recreation	29.04	4.86	15.00	3.46	39.54	4.75	25.50	3.86
Education	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-housing budget	281.51	47.13	210.38	48.51	440.74	52.89	363.55	55.06
Housing	315.80	52.87	223.30	51.49	392.50	47.11	296.70	44.94
Total budget	*597.31*	*100.00*	*433.68*	*100.00*	*833.24*	*100.00*	*660.25*	*100.00*

budgets and between 36% and 52% of the unemployed budgets.[10] In all cases, the budget shares devoted to housing exceed the 30% rule that is commonly used to identify housing stress among low-income families (see Rowley and Ong, 2012; Yates, 2007). The other areas that contribute significantly to the total budgets are food, household goods and services (which includes electricity and other utility bills) and transport.[11] Education and health contribute only a modest amount to the family budgets, in both instances because most of the costs are borne by the public purse not the family wallet.[12]

In all cases except the single adult, the budgets for those who are unemployed and on NSA are around 20% lower than those where the family breadwinner is in full-time work and receiving the minimum wage. For single people, the relativity is around 27% and is largely a reflection of the greater difference in housing costs facing single people. Aside from this, the fact that the budget relativities are similar across family types suggests that the underlying standards are broadly constant for each of the two labour force states. These are the relativities required to ensure that families at the two standards (low-paid and unemployed) are able to achieve the same level of adequacy. Other considerations (e.g. the need to maintain appropriate work incentives for those in and out of work) might dictate a different relativity, but such decisions cannot be made without access to the evidence about what the alternatives imply for the structure of both adequacy and incentives (and the costs involved).

Comparisons with existing benchmarks and safety net provisions

Table 4 compares the grossed-up budget standards with the relative poverty line that is most commonly used in Australian research studies and/or policy discussions, set at one-half of median (equivalised) income (see Cassells et al., 2014; Saunders et al., 2016;

Table 2. New budget standards for couples with one and two children, June 2016.

Budget category	Couple with one child (girl, aged 6)				Couple with two children (girl, aged 6 and boy, aged 10)			
	Low-paid		Unemployed		Low-paid		Unemployed	
	(AUD)	(%)	(AUD)	(%)	(AUD)	(%)	(AUD)	(%)
Food	156.22	16.11	148.41	19.36	200.91	17.12	190.87	20.30
Clothing and footwear	23.72	2.45	15.52	2.02	33.20	2.83	21.67	2.30
Household goods and services	112.72	11.62	100.59	13.12	139.10	11.85	124.33	13.22
Transport	144.72	14.92	91.52	11.94	144.72	12.33	97.89	10.41
Health	19.51	2.01	17.00	2.22	24.36	2.08	21.86	2.32
Personal care	31.03	3.20	29.87	3.90	35.34	3.01	34.18	3.63
Recreation	62.06	6.40	43.32	5.65	76.99	6.56	56.64	6.02
Education	27.43	2.83	23.79	3.10	61.26	5.22	52.93	5.63
Non-housing budget	577.40	59.53	470.04	61.30	715.88	61.01	600.37	63.84
Housing	392.50	40.47	296.70	38.70	457.50	38.99	340.00	36.16
Total budget	*969.90*	*100.0*	*766.74*	*100.00*	*1173.38*	*100.00*	*940.37*	*100.00*

Table 3. Budget standard for a sole parent with one child (6-year-old girl) (AUD/week).

Budget category	Low-paid		Unemployed	
	June 2016		June 2016	
	(AUD)	(%)	(AUD)	(%)
Food	89.49	10.81	85.02	12.59
Clothing and footwear	18.78	2.27	10.24	1.52
Household goods and services	90.46	10.93	79.01	11.70
Transport	100.39	12.13	100.39	14.87
Health	13.61	1.64	11.47	1.70
Personal care	21.52	2.60	18.89	2.80
Recreation	50.64	6.12	31.91	4.73
Education	50.31	6.08	41.54	6.15
Non-housing budget	435.20	52.58	378.48	56.06
Housing	392.50	47.42	296.70	43.94
Total budget	*827.70*	*100.00*	*675.18*	*100.00*

Wilkins, 2008). The new budget standards estimates for low-paid couple families are between 22% and 27% above the median income poverty line, although these gaps are larger for single adults (35.4%) and the sole parent with one child (46.9%). The fact that the new budget standards are well above the poverty line for those in low-paid work is

Table 4. Comparing the grossed-up budget standards with existing poverty lines, June Quarter 2016 (AUD/week).

Family type	Poverty line set at 50% of median income (1)	Low-paid grossed-up budget standard (2)	Ratio: (2)/(1)	Unemployed grossed-up budget standard (3)	Ratio: (3)/(1)
Single person	441.18	597.31	1.354	433.68	0.983
Couple, no children	661.78	833.24	1.259	660.25	0.998
Couple, one child (girl, aged 6)	794.12	969.90	1.221	766.74	0.965
Couple, two children (girl, aged 6 and boy, aged 10)	926.48	1173.38	1.266	940.37	1.015
Sole parent, one child (girl, aged 6)	563.43	827.70	1.469	675.18	1.198

not surprising, since the primary goal of Australia's wage-setting system since its inception has been to protect workers against poverty, and this involves ensuring that the minimum wage is above the poverty line.

Table 4 also indicates that the grossed-up budgets for unemployed single people and couple families are all very close to the corresponding median income poverty lines. This finding confirms that the standard implicit in the new unemployed budgets is very conservative, corresponding to how much is needed to attain the absolute minimum levels of living associated with poverty. The main divergence from this pattern occurs for the sole parent family, where the new budget standard is close to 20% above the median income poverty line, that is, at a level closer to 60% of median income than 50%. This is despite that fact that the age of the child is such that child care costs are kept to a minimum, although the sole parent family (unlike the other unemployed families) was assigned a car to allow the parent to better juggle her many responsibilities.

Overall, the comparisons in Table 4 indicate that if a poverty line tied to median income is used as the benchmark, the new budget standards would be more than adequate to support a poverty line standard of living if the family has at least one member in low-paid employment, even if only on a part-time basis, as is the case of the sole parent. However, this is not the case for most unemployed families, where the level of NSA does not provide effective protection against poverty.

Table 5 compares the new budget standards with the incomes generated by the Australian social safety net and provides a series of evidence-based benchmarks for assessing the adequacy of these provisions. For each family type, the existing rules and eligibility criteria have been applied to calculate what level of income would be received as cash in hand (or disposable income) if the family (male) head is either working full-time and receiving the minimum wage, or is unemployed, looking for work and in receipt of NSA.[13]

The safety net incomes shown in Table 5 reflect the incomes received by low-paid workers under the April 2016 minimum wage award (an hourly rate of AUD17.29 or AUD656.90 a week) or (for the unemployed) the prevailing maximum base rate of NSA (equal to AUD506.85 per fortnight or AUD253.40 per week) or (for the sole parent) the base rate of Parenting Payment, Single. The calculations also assume that families

Table 5. Comparisons of the grossed-up budget standards with existing safety net incomes (AUD per week, June Quarter 2016).

Family type	Low-paid			Unemployed		
	Grossed-up budget standard (1)	Safety net income (2)	(2) minus (1)	Grossed-up budget standard (1)	Safety net income (2)	(2) minus (1)
Single adult	597.31	659.22	61.91	433.68	337.68	−96.00
Couple with no children	833.24	794.21	−39.03	660.25	552.84	−107.41
Couple with one child	969.90	978.74	8.84	766.74	708.28	−58.46
Couple with two children	1173.38	1084.64	−88.74	940.37	814.13	−126.24
Sole parent with one child	827.70	872.56	44.86	675.18	627.79	−47.39

Source: Tables 1 to 3 and see main text.

receive any additional benefits for which they are eligible, including (where appropriate) Rent Assistance, the Energy Supplement, Income Support Bonus, Family Tax Benefits Parts A and B and the associated Supplement and Energy Supplements and (for the sole parent family) Telephone Allowance. Income tests have been applied where this affects the payments made to families in paid work or receiving multiple payments, and all incomes are expressed net of any income tax liabilities, after factoring in where relevant the Low Income Tax Offset and the Senior Australians and Pensioners Tax Offset (for the sole parent family) and the Medicare levy.

These comparisons indicate that the safety net is providing an adequate income floor for low-paid individuals and sole parents in part-time work but not for couples without children or with one child, where the shortfall varies between AUD39 and AUD89 a week. Even in those two cases where the gaps are positive, they are not large enough to cover the higher rents that would have to be paid by those living in Sydney compared with the three-city average rents incorporated into the budget standards.[14] In light of the fact that the budget standards are deliberately conservative, the fact that existing safety net provisions only just exceed them in some instances suggests that many low-paid workers are only just able to achieve the MIHL standard and are very vulnerable to even the slightest rise in living costs or decline in their incomes.

It is also clear that, as many others have observed, prevailing levels of NSA are woefully inadequate. The shortfall is AUD96 a week for a single person and varies for other family types between AUD47 for the sole parent with one child and AUD126 a week for the couple with two children. The AUD50 a week increase in the single rate of payment that has been advocated for by the Australian Council of Social Service (ACOSS, 2012) and other community groups would only reduce by about half the AUD96 a week payment shortfall for single adults. It would require a substantial increase in existing payment rates to close these adequacy shortfalls, which will continue to grow under existing policies.

Conclusion

The principal goal of the research reported here was to review, refine and update the budget standards for Australia produced over two decades ago to make them relevant to current circumstances. This seemingly straightforward task has presented many challenges. Changes in shopping behaviour and in the range and types of goods available have made it impossible in practice to replicate exactly what was done before. These changes, combined with the experience gained since the previous budgets were developed and the availability of new data, have set new boundaries around what is possible and have thus impacted what was done.

Despite all these complications, it has been possible to produce a set of new budget standards by identifying and pricing the items required for low-paid and unemployed families to meet their basic needs at an acceptable but minimum and healthy standard of living – the MIHL standard. Drawing on existing consumer surveys can assist in this process, although it is important to remember that what people are observed to spend is determined by how much they can afford, not by what they need. It thus becomes necessary to understand and interpret what people do in ways that generate insights into the underlying needs that drive their consumption decisions and how they make ends meet or decide what items or activities to go without. This is why conducting focus groups with those on a low income plays such an important role in generating a better understanding of the motivations that underpin spending decisions and other components of a budget standard.

The new budget standards highlight the importance of housing costs and the inadequacies of the minimum wage in several instances and of NSA generally. A key finding of the study is that the minimum wage performs far better than NSA in terms of adequacy, although there is room for improvement to provide adequacy for couple families with and without children. The current adequacy of NSA is little short of abysmal, and the contrast with the minimum wage raises important questions about whether it is time to introduce an independent mechanism for reviewing and setting the level of NSA that is similar to that used by the Minimum Wage Panel to review and assess the adequacy of the minimum wage. The need for such an approach was raised by the Henry Tax Review and has attracted support from community organisations such as Catholic Social Services, Australia (CSSA, 2008) and ACOSS (2017). This growing groundswell of support for some kind of regular review process reflects concern that payment adequacy should be given greater prominence on the radar screens of policy-makers. If this situation is to be addressed a regular update of relevant budgets standards like those reported here should form a central component of any new arrangement.

Seebohm Rowntree and Justice Higgins understood the simple but compelling logic of the budget standards approach over a century ago, and the recent revival of interest in budget standards research points to the inherent wisdom and enduring nature of their insights. The new estimates presented here are designed not only to inform important public policy debates and choices but also to allow others to draw on and extend the results in a variety of contexts where adequacy questions are central. Income adequacy is closely related to the broader issue of economic inequality that is assuming growing importance and attracting increasing attention. It is difficult to see how any level of economic inequality can be regarded as acceptable if basic needs are not being met at an acceptable level. The challenge of assessing income adequacy will not go away, nor will the contribution that budget standards research can play in helping to address it.

Acknowledgements

The project benefited from the comments and advice provided by Paul Henman, John Buchanan and Adrian Bauman who served as members of the Project Reference Group. The authors acknowledge their advice, the detailed comments provided by anonymous referees and the input of colleagues Marilyn McHugh, BJ Newton, Elizabeth Adamson and Melissa Wong and project partner investigators Peter Davidson, Joe Zabar and Melissa Coad, but accept full responsibility for the views expressed in the paper.

Funding

The research described here was funded by the Australian Research Council (under Linkage Grant project LP120200481) and was conducted in partnership with Catholic Social Services Australia, United Voice (National Office) and the Australian Council of Social Service (ACOSS), who provided a mix of cash and in-kind support.

Notes

1. This shift in approach has been neatly summarised by Vranken (2010) as one in which the role of the focus groups has moved away from validating budgets designed by experts to one in which the focus groups now design and decide budgets that the experts then validate.
2. These changes include increased ‘shopping around’ for bargains, greater reliance on generic (‘Homebrand’) items, more high-tech communication devices such as tablets and home computers and increased use of recreational goods to promote good health.
3. Extensions of the original Social Policy Research Centre (SPRC) budget standards have been used to estimate the costs of children by the Ministerial Taskforce on Child Support (see Henman, 2007) and form the basis of the Westpac/Association of Superannuation Funds of Australia (ASFA, 2018) Retirement Standard Benchmarks (see Saunders et al., 2005; www.superguru.com.au/default.aspx) that are widely used to assess the adequacy of superannuation benefits.
4. It is also worth noting that the Modest but Adequate (MBA) standard represents a level above what is expected to be supported by the minimum wage, while the Low Cost (LC) standard was below that expected to be supported by the minimum wage. This prevents either standard from providing an appropriate benchmark for assessing the adequacy of the minimum wage.
5. Real Estate Institute of Australia (REIA) data include average monthly rents paid for dwellings of different sizes located within different suburbs within each State capital city.
6. It is possible that data from the census could be used to provide a better estimate of average rents using the approach outlined, although data from the latest (2016) census were not available when the budgets were being developed. Census data are also available only every 5 years, limiting the scope to update the budgets regularly.
7. The sole parent is assumed to work for 20 hours a week and receive the minimum wage.
8. The (female) partners in couple families are assumed to be not in the labour force if children are present or unemployed if there are no children.
9. The new budgets do not cover older working or retired households, although revised budgets for the latter group have been estimated by Saunders et al. (2005).
10. Note that the budgets include gross housing costs – appropriately, since this is the amount actually spent on accommodation – although these costs may be offset by any housing-related income support (as is the case in Table 5, where the safety net incomes include relevant levels of Commonwealth Rent Assistance (CRA)).

11. A number of recent Australian studies have focused attention on the issue of 'energy poverty' (see, for example, Chester and Morris, 2011), while broader concern has been expressed about rising utility prices. This component of the new budgets (included under Household Goods and Services and including electricity, Internet and mobile phone costs) varies between AUD36.06 (single person) and AUD76.65 (couple with two children) a week for both low-paid and unemployed families.
12. All individuals are assumed to be healthy and not suffering from any on-going health problems although this does not preclude the use of health services where these are accessed annually by at least 50% of the relevant gender-age groups.
13. The 'safety net' calculations are based on the minimum wage levels and social security payment rates and conditions that exist in April 2016. The timing difference between April 2016 and the June Quarter 2016 to which the budget standards apply will not impact the comparisons presented below because the safety net (and taxation) provisions that existed in April remained in force throughout the June Quarter.
14. For example, rental costs are between AUD60 and AUD105 a week higher at the low-paid standard and between AUD53 and AUD60 a week higher at the unemployed standard if average rents in Sydney are used rather than the corresponding average rents across Sydney, Melbourne and Brisbane (Saunders and Bedford, 2017: Table 5.11).

References

Association of Superannuation Funds of Australia (ASFA) (2018) Understand and maximise your superannuation. Available at: http://www.superguru.com.au/ (accessed 14 May 2018).

Australian Council of Social Service (ACOSS) (2012) *'Surviving, Not Living': Submission to Senate Employment Committee on the Adequacy of 'Allowance' Payments*. Sydney, NSW, Australia: ACOSS.

Australian Council of Social Service (ACOSS) (2017) *Budget Priorities Statement, 2017–18*. Sydney, NSW, Australia: ACOSS.

Australian Council of Trade Unions (ACTU) (2017) *ACTU Calls for Living Wage on 110th Anniversary of Harvester Decision (Media Release)*. Melbourne, VIC, Australia: ACTU.

Bradshaw J (ed.) (1993) *Budget Standards for the United Kingdom*. Aldershot: Avebury.

Cassells R, Dockery M and Duncan A (2014) *Falling through the Cracks: Poverty and Disadvantage in Australia. Focus on the States, Issue No. 1*. Perth, WA, Australia: Bankwest Curtin Economics Centre.

Catholic Social Services Australia (CSSA) (2008) *An Australian Entitlements Commission: A Proposal for an Independent Commission to Inform Decisions about the Adequacy of Pensions and Other Income Support Payments*. Canberra, ACT, Australia: CSSA.

Chester L and Morris A (2011) A new form of energy poverty is the hallmark of liberalised electricity sectors. *Australian Journal of Social Issues* 46(4): 435–459.

Commonwealth of Australia (1920) *Report of the Royal Commission on the Basic Wage (The Piddington Report)*. Melbourne, VIC, Australia: Government Printer of Victoria.

Deeming C (2017) Defining minimum income (and living) standards in Europe: methodological issues and policy debates. *Social Policy and Society* 16(1): 33–48.

Fair Work Commission (FWC) (2014) *Annual Wage Review 2013–14*. Melbourne, VIC, Australia: FWC.

Goedemé T, Storms B, Penne T, et al. (2015) *Pilot Project for the Development of a Common Methodology on Reference Budgets in Europe: The Development of a Methodology for Comparable Reference Budgets in Europe – Final Report of the Pilot Project*. Brussels: Directorate-General for Employment, Social Affairs and Inclusion, European Commission and University of Antwerp.

Hancock K (2004) The wage of the unskilled worker and family needs, 1907 and 1920. Working paper no. 152, June. Adelaide, SA, Australia: National Institute for Labour Studies, Flinders University.

Harmer J (2009) *Pension Review Report*. Canberra, ACT, Australia: Department of Families, Community Services and Indigenous Affairs.

Henman P (2007) Updated costs of children using Australian Budget Standards. In: Henman P, Percival R, Harding A, et al. (eds) *Costs of Children: Research Commissioned by the Ministerial Taskforce on Child Support, FACSIA Occasional Paper No. 18*. Canberra, ACT, Australia: Department of Families, Community Services and Indigenous Affairs, pp. 1–54.

Lawrence B (ed.) (2015) *Working Australia, 2015: Wages, Families and Poverty*. Melbourne, VIC, Australia: Australian Catholic Council for Employment Relations.

Morris JN and Deeming C (2004) Minimum incomes for healthy living (MIHL): next thrust in UK social policy? *Policy & Politics* 32(4): 441–454.

Morris JN, Deeming C, Wilkinson P, et al. (2010) Action towards healthy living – for all. *International Journal of Epidemiology* 39(1): 266–273.

O'Sullivan J and Ashton T (2012) A minimum income for healthy living (MIHL) – older New Zealanders. *Ageing & Society* 32(5): 747–768.

Real Estate Institute of Australia (REIA) (2016) *Real Estate Market Facts, March Quarter 2016*. Canberra, ACT, Australia: REIA.

Rowley S and Ong R (2012) *Housing affordability, housing stress and household wellbeing in Australia*. Final report no. 192, 11 September. Melbourne, VIC, Australia: Australian Housing and Urban Research Institute.

Rowntree BS (1901) *Poverty, A Study of Town Life*. London: Macmillan.

Saunders P and Bedford M (2017) *New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians*. Sydney, NSW, Australia: Social Policy Research Centre, University of New South Wales.

Saunders P and Wong M (2011) Pension adequacy and the pension review. *Economic and Labour Relations Review* 22(3): 7–26.

Saunders P, Chalmers J, McHugh M, et al. (1998) *Development of indicative budget standards for Australia*. Policy research paper no. 74, March. Canberra, ACT, Australia: Department of Social Security.

Saunders P, Patulny R and Lee A (2005) Benchmarking the living standards of older Australians using budget standards. *Australian Journal on Ageing* 24(3): 146–152.

Saunders P, Wong M and Bradbury B (2016) Poverty in Australia since the financial crisis: the role of housing costs, income growth and unemployment. *Journal of Poverty and Social Justice* 24(2): 97–112.

Vranken J (2010) Using reference budgets for drawing up the requirements of a minimum income scheme and assessing adequacy. Synthesis report, Brussels: Employment, Social Affairs and Inclusion, European Commission.

Watts HW (1980) *New American Family Budget Standards: Report by the Expert Committee on Family Budget Revisions*. Madison, WI: Institute for Research on Poverty, University of Wisconsin-Madison.

Wilkins R (2008) The changing socio-demographic composition of poverty in Australia: 1982 to 2004. *Australian Journal of Social Issues* 42(4): 481–501.

Yates J (2007) *Housing affordability and financial stress, NRV3: housing affordability for lower income Australians*. Research paper no. 6, 1 January. Melbourne, VIC, Australia: Australian Housing and Urban Research Institute.

Author biographies

Peter Saunders was the Director of the Social Policy Research Centre (SPRC) at the University of New South Wales between 1987 and 2009 and currently holds a Research Chair in Social Policy within the Centre. His research interests include poverty and income distribution, household needs and living standards, social security reform, social exclusion and inclusion, comparative social policy and ageing and social protection. He was elected a Fellow of the Academy of the Social Sciences in Australia in 1995, and was an Australian Professorial Fellow working on the concepts and measurement of poverty, deprivation and social exclusion in Australia between 2004 and 2009. He is currently extending that analysis to examine children's perceptions of economic adversity and social exclusion in Australia, Hong Kong and Taiwan. He was the first President of the Australian Social Policy Association between 2009 and 2013 and has been President of the Foundation for International Studies on Social Security since 2009. In 2015 he was appointed a member of the Advisory Board of the World Bank Commission on Global Poverty.

Megan Bedford is a Senior Research Officer at the Social Policy Research Centre, UNSW Sydney. She has experience working on projects on poverty, deprivation and social exclusion. The most recently completed project involved developing a set of budget standards for low-paid and unemployed Australians and their families. She is currently working on two projects, the first about deprivation and exclusion among young people in NSW and the second a longitudinal study that looks at the experiences and educational outcomes of young people receiving an educational scholarship.