



# THE ROYAL BANK OF CANADA

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Not so very long ago you were looked upon as somehow queer if you ran your personal or family money affairs on a budget. Nowadays, people know how pleasant it is to come out even at the week-end or year-end.

Diehards who profess to look down their noses at budgeteers are really envious — envious not only of the peace of mind budgets bring, but of the added pleasures obtainable in life through making wishes come true by planning in advance the purchase of longed-for articles.

A family budget is a plan for making your income do the most possible to make you and your family happy. It is not a list of "Thou shalt nots", but a guide for better living, a device to get you things you want. It doesn't mean you have to stay home from the movies because the price of the ticket would upset your petty cash. In fact, good budgeting says it is all right to be wildly extravagant on occasion — so long as you know you are doing it and are getting value for your money and for the discomfort your budget tells you will follow.

The period at which salary or wages are received has an influence on budgeting. If you are paid weekly, obviously it is easier to control purchases than if you are paid on a semi-monthly or monthly basis. In the latter case, you are likely to spend liberally early in the month and then have to economize toward the end. If you budget, you are much less likely to find yourself repining your inability to get the hat, permanent wave, pipe or best seller you so desperately want about the 20th. Money is only fulfilling its purpose when it supplies something we need or want. Some is earmarked at once for the necessities, some goes into the bank to be saved for a future want, some into insurance as a form of investment. It is not the amount that counts so greatly, but ingenuity in making it do what we want. According to the census of 1941 there were 1,150,000 heads of households in Canada receiving less than \$3,000 a year in salaries and wages, and only 50,000 receiving more, yet everyone knows that many more persons than 50,000 live well, enjoy pleasures and have peace of mind.

It is impossible for anyone to advise you in detail the budgeting path to take. What gives the greatest satisfaction to one person or family would not appear

at all to another. Needs are different. For example, you may be employed by a firm which has a pension plan and group insurance, while your neighbour may have to make his own budget plans for retirement, medical care and insurance.

Life is made up largely of choices between this and that. A child will stand in front of the candy showcase with his nickel clutched in a perspiring hand; he has to make up his mind what type of candy will give him the greatest amount of satisfaction in exchange for his nickel, and whether he should spend the nickel now or wait until next week or next month when he will have another nickel to put beside it on the counter and get in exchange a bigger or better candy.

The child's candy problem is just an example in small of the problem facing the adult person. In addition to the practicalities of the situation, there are spiritual satisfactions to be considered in making a choice. Valentine Davies put an appropriate piece for quotation into his matchless Christmas book "Miracle on 34th Street." In it he has Doris say: "You can't pay the rent with intangibles," to which Fred replies: "And you can't live a life *without* them."

Is it true that married couples quarrel more often over money matters than about any other topic? A budget will help keep the waters calm.

If you earn \$3,000 a year between 25 and 60 you will produce during these years the sizable sum of \$100,000. If you are the wife of such a person, you will control the spending of about \$85,000. That, no matter how you look at it, is a big responsibility that should be shared.

The success of any budget will depend upon the co-operation of everyone affected by it. Dear old diarist Pepys tells this sad story: "I and my wife up to her closet, to examine her kitchen accounts, and there I took occasion to fall out with her, for her buying a laced handkercher and pinner without my leave. From this we began both to be angry, and so continued till bed." Napoleon and Josephine had their budget troubles too. Sir Walter Scott tells us in his *Life of Napoleon* that the emperor of half the world was powerless to halt Josephine's profuse spending.

## A Family Affair

And, going very much farther back, Pericles, the Athenian statesman, failed to win the support of his family in his system of housekeeping. They complained, says Plutarch, that "everything was ordered and set down from day to day, and reduced to the greatest exactness . . . all that went out or came in, all disbursements and all receipts, proceeded as it were by number and measure."

These three incidents provide object lessons. Pepys failed to allot his wife personal spending money; Josephine ran wild with her charge accounts, and the first that Napoleon knew about them was when he got the bills; Pericles attempted to run his family in the way he would do a totalitarian state.

Husband and wife are partners, and as the children become of age to understand money and money management they should be taken into the business. Be definite as to who is responsible for paying what, and be clear that individual responsibilities are part of a co-operative programme.

It is probably true that many persons put off starting a budget because their financial affairs are in bad shape and they can't see their way through the immediate barbed wire entanglements to the attractive country beyond. Even if you have what appears to be a great load of back debt, there are ways of putting your financial house in order — and this is worth doing so as to achieve the peace of mind and capacity for full enjoyment that come with a rational working plan.

Credit should be used wisely. Do not borrow more than is actually needed, and budget to repay it in the shortest possible time, thus saving interest charges.

Spending can be as virtuous as saving. No matter how large or how small your income may be, you can make your life miserable by spending in stupidity or saving in ignorance. Some persons who have studied the matter deeply say that through wise buying a family can expand its income by 10 to 20 per cent, and an article in the New York Times in October, in the midst of alarms about rising costs, declared flatly that if armed with the proper facts "consumers should be able to halt the rise in their personal cost of living indices, maybe even start a downtrend."

You will be surprised to find how much comfort and beauty can be bought for very little if you shop and spend wisely, choose carefully, and plan your home so that everything is in proportion to your income. Start by keeping a "purchase book" in which to list articles you wish to buy, such as furniture, linens, drapes, dishes, and so forth. Lay out a priority list, so as to obtain the things first which will give the greatest satisfactions. Check them off as you obtain them, noting the store and the price. This is a practice that will help you in future years when replacements are needed and, incidentally, prove useful as an inventory in case of fire.

When we headed this section "Dividing the Income" we didn't mean to present any set plan whereby you must spend certain percentages for shelter, food,

clothing, and so on. Such percentages will be given, but they are only signposts drawn from others' experiences. There are sharp differences between the customs and desires of persons reading this Monthly Letter, and it would be impracticable to give an example of budgeting which would have significance for all. If we get at some principles, then the details are for individuals to work out according to their own bent.

The important departments in household spending are: shelter, food, clothing, household operation and savings. Within each one, you create your own spending plan. The following table gives typical suggested major divisions of the income, in percentages, drawn from various sources:

	(1)	(2)	(3)	(4)
		(see footnotes)		
Shelter	25	20 to 25	20	20
Food	40	25 to 40	35	40
Clothing	15	15	15	10
Household operation	10	8 to 15	10	10
Savings	10	15	10	10

(Notes: (1) D.C. Maclean, in The Financial Post, April 5, 1947. This is for a married couple with two children. (2) Canadian Welfare Council booklet "Managing the Home on Small Income", 1938. The "Savings" item includes amusements, gifts, health and education. (3) First Wisconsin National Bank budget book. This is a suggested division for the business woman, while (4), from the same source, is for a bachelor. The missing 10 per cent is for "other expenses, advancement.")

These allotments look nice and orderly, and they seem to agree very well with one another in their division of the income dollar. It would be safe, however, to add another section, which might be labelled "Oil." That's for oil for troubled waters. It will cover mistakes and save personal or family or office headaches. It will cover the \$10 you lend to a friend and never get back; the \$5 you spend on impulse on a present for a special occasion when the budget allows only \$1. The "Oil" section might be 2½ per cent or 5 per cent, taken proportionately off the other sections.

It is, as we said before, quite impossible to lay down a budget routine that will apply in practice in every individual case. There is no "right" or "wrong" budget, but only one that is right or wrong for your particular needs. There are, however, a few hints which may help.

Some form of bookkeeping is needed — and right here is where a lot of readers will make a motion to lay this article down. It's not as bad as that. You don't need to study books on finance, or pore over statistics (though, really, statistics are nice things when you get to know them by their first names. They tell such interesting stories.) All the "bookkeeping" needed is explained in this article.

Sometimes "tricks" help in budgeting, just as can-openers make cooking painless. Some people get their salary broken into small change, and divide it immediately into three parts: (1) enough to cover daily cash expenses (carfare, business lunches, cigarettes); (2) enough to pay bills, (rent, milk, groceries); (3) a general sum to represent one-twelfth, one-twenty-

**Getting a Good Start**

**Wise Buying**

**Dividing the Income**

fourth, or one-fifty-second of the amount needed in a year for insurance, taxes, clothing, vacation, and so on. This is deposited in the bank and drawn upon as needed for the specific purpose assigned in the budget.

Others have envelopes. Each envelope has written on it the purpose, such as "milk, grocer, gas" etc. and the amount to be put into each envelope weekly (or whenever pay-day comes) to meet the anticipated expenditure. This is a very good system in many ways. Small balances in any of the envelopes at the end of the period can be transferred to a savings account. "Borrowing" between envelopes is all right provided it is done with care and a memo made of the transaction.

A budget book put out by the Y.W.C.A. (a purse-sized list on paper pasted on linen to keep it whole) has this printed on it: "Keep this year's expenses, then you can tell next year's salary where to go." That seems to be a more certain way than by envelopes or boxes, and it really isn't much work.

While no other person's budget will exactly suit your case, it is always interesting to see how other people make out. We have, therefore, gathered together several budgets. These are not out of books of theory, but out of people's lives. All figures are percentages of total income.

**Married couple; no children.** Husband attending University, works summers. Wife employed. Income, made up of government grant, summer work and wife's salary: \$2,500. Operating (total 36.52 per cent): rent 24; heat 2.6; light, gas and water 3.8; laundry 2; sundry 4.12. Food: 17.2. Clothing: 12. Social and donations: 14. Dentist 2. Income tax (small because part income is "gratuity"): 4.08. Insurance: 7.8. Sundries (transportation, drugs, etc.) 6.4. This couple is not saving, and is actually dis-saving by cashing bonds for uncounted expenses such as vacations, Christmas, winter coat, etc. This is a representative situation, since so many young people are "making do" while the ex-service husband gets an education which will prepare the couple to start on a permanent plan at a higher standard than would be possible without this period.

**Single woman, living alone.** Rent: 17. Food: 17. Clothing: 17. Social and donations: 15. Sundries 12. Savings: 11. Telephone and laundry: 4. Insurance: 4. Doctor and dentist: 3.

**Single Woman, Living Alone.** Food: 23. Rent: 14. Savings: 11. Clothing: 10. Social and donations: 10. Income tax: 9. Replacements (linens, etc.): 4. Hospital insurance and unemployment insurance: 4. Laundry and cleaners: 4. Lunches: 3. Street car: 3. Telephone: 2. Doctor, dentist, optician: 2. Drugs, cosmetics: 1.

**Married Couple, Two Children.** Shelter: 36. Food: 20. Clothing: 9. Household operation: 25. Savings: 10.

If it will make figuring any easier, don't think of budgeting as planning expenditures in advance: think of it as planning your *net income* in advance . . . the sum you will have left to do with as you please after providing for living.

If you wish to do the thing thoroughly you should have a record of all your assets: investments, life insurance (paid-up value), real and personal property, cash in bank and on hand. You will find this wonderfully useful. It is good to have in case of emergency, an uplifter in times of despondency, and an appreciated feature if you are seeking a loan.

Next, set down your income. Don't day-dream about this; put down the *smallest* amount you expect to receive and base your budget on that. Don't anticipate uncertainties, such as Christmas gifts or bonuses. If more comes than you have counted upon, it is all yours, without any budget strings, to save or to spend on things you would like to do or to have.

Next, deduct your income tax. Just take this philosophically, and decide to disregard it. What is left is your available, spendable income. (By the way, there is a lot of childish thinking in regard to taxation. Services such as those given by municipal, provincial and federal governments cannot be furnished free. They are provided because the people want them. It would likely cost you a lot more if you had to pay separately every time you used a highway, sent your child to school, or had your house protected from fire. These governments supply hundreds of services in which every taxpayer is a small shareholder.)

Estimate the total fixed or "must" expenses for the year, such as rent, interest charges, repayment of debt, and other items of which you know in advance. Subtract this total from your net income, and what you have left is the amount which may be budgeted in detail. Decide how this balance may be divided among the various items to give the greatest satisfaction to your family. You may do this according to one of the typical percentage lists, but a better way is to study the amount you have been in the habit of spending on the different sections, appraise each item, and decide whether it should be larger or smaller.

Appoint one person to keep the budget. This is the only way a budget will ever continue working, but there should be periodical budget conferences to maintain entire family participation. The Family Budget Book, to be had free at any branch of The Royal Bank of Canada, or from Head Office, Montreal, shows how to set up and run a budget, and gives ruled pages for a year.

If you have no records or old bills to which you can refer for help, launch your budget anyhow and at the same time start to gather facts. Here's one way to go about it. Get a small note-book, mark off a page for each day of the month. Put down the record of every cent you spend, even to the penny you put in the weighing machine to see what budgeting is doing to you. Don't bother classifying or adding day by day. This is a daily financial diary, for a limited time, for a specific purpose. It is NOT budgeting.

At the end of the month, take an evening to face the facts of your financial life. Go through your record and classify the items under the major headings you plan

**Starting  
a Budget**

**Getting  
the Facts**

to use in your budget. Then total each set of items. What percentage of your month's income does each represent?

It doesn't matter greatly at what time of year you start a budget, but most people like to have an important affair like this run from a special date. January first is a nice time to start, because good resolutions about money are likely to be strongest just after the Christmas splurge. On the other hand, individuals may find, as business firms do, that the calendar year is not suitable. They may make their budgets on the basis of a fiscal year which suits their own purposes. It might be from income tax day to income tax day, for example. The main thing is to have an annual budget. If it takes \$120 to heat your home, it's better to apportion this at \$10 a month, even though you actually use it in only six months of the year, instead of \$20 a month from November to April inclusive. In this same connection it is a good scheme to keep big expenses well spread out. If your insurance premium, your taxes and the doctor's bill fall due in the week you are supposed to start your vacation, you can see what will happen.

Sometimes it is necessary to revise the budget, or to prepare a special budget for a particular purpose. This might occur when changes in conditions have been so extreme as to render the original budget valueless. The food cost of living advanced by 17 per cent between December 1946 and October 1947, so an allowance that bought \$25 worth of food at the beginning of the year would buy only \$20.75 worth toward its close.

Make your budget durable and livable by keeping it simple. It can be fun, and a good budget will make life more fun. It is a matter of planning, not book-keeping. Rigid control is not necessary or advisable — except perhaps in such cases as that of Josephine and Napoleon, where heated scenes could have been avoided if he had been as firm with her as he was with his generals.

There are three special points to watch. (1) Do not "kid" yourself; the budget must be balanced. If you borrow for some purpose, however worthy your objective, you have to make note of the borrowing in the place where that money belonged. (2) Don't get the idea that because you have had a raise or a wind-fall you can increase your expenditures without limit. Raises always look bigger than they turn out to be in the spending. (3) Don't model your spending after that of your parents or neighbours. Frequently young people forget how much larger their family income was than their own is, and try to buy and enjoy all the things they formerly enjoyed at home. Neighbours often cause trouble, not by things they do but because we are trying to match their expenditures though we have not so much income.

In an excellent book called "Income and Outgo" which he wrote in 1936, Nigel Balchin said: "It is when such obvious necessities as food and cleaning have been disposed of, that we pass into the really shadowy

Casual Expenditures

realms of housekeeping expenses — the realms in which money vanishes, unaccountably and unaccounted for. The best comment on them is that the majority of housewives who gave us information could tell us nothing about them at all."

Let us agree quite cheerfully that there must be some money that disappears as completely as if the mice had eaten it. One husband going over his wife's records came every little while on an entry: "HOK \$1.50" or "HOK \$3". He asked what it meant and was told: "Heaven Only Knows."

We must remember that the "HOK" amount had to come out of somewhere. The very essence of planning a budget is to see that a distribution is made so that the ultimate in satisfaction is received for expenditure and that no section is robbed. So beware if the "HOK" column starts going up.

Do not expect your first budget to be ideal. It is an experiment. After a year you will really find pleasure in it, because you will have something for comparison and judgment. Don't get into the habit of staying home at night trying to find a missing 23 cents (missing amounts are always odd numbers). No one can hope to budget 100 per cent accurately, and only foolish persons try. With all his wizardry at mathematics, Einstein could never make his bank book balance. Pepys was fortunate on one occasion, but he knew budgets too well to be credulous: "Casting up my accounts, I do find myself to be worth £40 and more, which I did not think, but am afraid that I have forgot something."

Having started budgeting, stick to it. Enough people do it successfully to indicate that it is worth while.

Planning expenditures will bring about more intelligent use of income: (1) the necessities will be provided for because they will be considered first, thus removing a possible source of worry; (2) purchases will be made more wisely because they are foreseen. Advantage can be taken of seasonal reduction in prices, and time is available to search for the particular article wanted; (3) what you purchase, for example in the way of furnishings or clothing, will fit together better because planned together; (4) leaks will be uncovered and can be plugged; (5) the budget will lead to establishment of a better standard of living by tying all the parts together which are now loose, and building a programme.

Finally, consider the budget as a dispeller of worry. What is your specific financial worry? Do you really have a problem, or are you just worrying on general principles? A budget will tell you. But if you are one of those people refusing to go to a doctor because (1) he may find something wrong with you and tell you; (2) he may say there's nothing wrong with you, thus depriving you of a conversation topic — then a budget is not what you need.