Are Ireland's Social Security Payments too Small? A Rejoinder

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INFORMED discussion of this important topic is to be welcomed, if not necessarily on the issues, or in the tone, of the foregoing Comment (or of this rejoinder). The purpose of the Comment is stated at the outset to be (i) to cast doubts on my methodology in reaching the conclusion that "Having regard to relative incomes, Ireland's present distribution of transfer income (except national debt interest) measures up to the best EEC standards"; and (ii) to extend the study to take account of my shortcomings. The authors fail on both counts.

As to (ii), their conclusion is disappointingly *non possumus* after the alleged extension of study: "Its main finding has been to establish that it would be extremely difficult, at this stage, to assert that, given its stage of economic development, Ireland compares favourably or otherwise with the other EEC countries in social security consciousness". What is meant here by "consciousness"? There is nothing about this in my original paper.

The following quotation from our critics' first section enshrines the major error of the Comment: "he turned to time-series data for one country". He did indeed. And the country is—Ireland! The authors are quite wrong in suggesting that the only conclusion in my short note depended, for its validity, on there being a cross-section relationship between real income per head and transfer payment percentage. They proceed to "refute" me by citing insignificant correlations based on eight countries (what happened to Luxembourg?). Why on earth should there be such relationship when each country has, in this regard, its own policy and tradition? Enough that generally the percentage increases with income.

My question was: granted Ireland's behaviour in the past, what would its percentage be when its income reaches that of the other EEC countries now? Posed this way, no cross-section theory of relationship between income and percentage is necessary. Of course, the authors produce the usual anti-econometric argument that forward extrapolation involved here is invalid, i.e., that the relationship may change in future. In the distant future certainly; but I shall show later that the relationship holds in the short (future) term. As to the past, anyone viewing the chart in my note who denied a relationship in Ireland between income and percentage is flying in the face of the statistical evidence and the common sense that taxation and transfer payments are progressive, to repeat *ad nauseam*, in Ireland.

I failed, it is true, to find a simple regression relationship between my X and Y. This does *not* mean that a relationship does not exist. The modern approach to relationship between time series attempts to bypass the regression association of rigorously-paired data, current or lagged, and instead has regard to what may be termed the "general physiognomy" of relation, implying that time lags are not fixed but themselves random variables. This *may* be the case with X and Y. To make the simple point of my original note I did not need to pursue this matter.

I therefore reject the authors' conclusion involved in their Table 2, as unwarrantedly comparing transfer behaviour of different countries.

It is quite unimportant that the authors prefer their version of Table 1. Happily the percentage for Ireland is identical in our two versions; I may add that the 1968 figure in my Table 2 for 1968 (8·86) agrees well with the 9·01 in their Table 1. So much for the authors' "surprise" in their censorious footnote 4. Believe me, I know the difference between national and personal income. To finish with this matter: Table 1 was comparatively unimportant from my point of view. I did not aspire to exact estimation as to what Ireland's percentage should be in any of my paired comparisons, but only to make the general qualitative point that we measure up well to other EEC countries. As their Table 1 percentages (must one not doubt figures which give Ireland a higher percentage than UK?) are generally lower than mine, if I had used their figures my conclusion would have been more emphatic.

The authors are wrong in stating that, for Y in my Table 1, transfers were of central government only, as wrongly stated in the note to the table. A recheck of the source as shown makes it clear that, as everywhere else, transfers were from general government. The fault was mine.

At a number of points the authors have me "implying" this or that. In no such case did such implications enter my mind. On the other hand, I wish they had implied the main point of the orthopol analysis which I left unstated, as obvious (their erroneous footnote 3 refers), namely that the assumption I made about future relationship between X and Y was conservative.

In fact, I have since used the significant orthopol relation (3) (in my paper[1]) to estimate what the transfer income percentage would be when we had reached

1. In this formula the constant term given as 1·9362 should be 0·9362.

the present income per head level of Belgium (as given in my Table 1). I refrain from quoting the estimate because it is absurdly large. I have been impelled, however, to attempt to extend my Table 2 from the existing year, 1971, to 1973, to the following effect:—

	1971	*1972*	*1973*
X—Personal income per head at constant (1958) prices (£)	311	318	330
Y—Current transfers (except NDI) as % current income (%)	11·16	11·7	12·5

Basic sources: (1) *Quarterly Economic Commentary, April 1973* by T. J. Baker and J. Durkan, Tables 2·1 and 2·2; (2) *Budget 1973*, page 78.

Link was made at 1971 with my Table 2. It goes without saying that the figures are speculative. As they have been produced without forcing, it is remarkable that (to the eye) the figures for 1972 and 1973 for both *X* and *Y* lie exactly on the extrapolated linear 1968–1971 graphs on my chart. The percentage (*Y*) seems to be increasing just twice as fast as income (*X*), in fact 12 per cent compared with 6 per cent between 1971 and 1973. The affirmation of my earlier conclusion would be stronger if these more recent data had been available when I wrote the note.

The opening paragraph in the authors' section *Social Security Payments in Kind* is not only quite wrong, but oddly so, since the statistical source of Irish transfer payments is quite explicit as to definition. In reference to *National Income and Expenditure* 1971 (Prl. 2779) the basic statistic used is item 70, Table A.7. In the Explanatory Notes, item 70 is stated to be the sum of items 127 and 156, of which details are stated to be given in Table A.19. This table shows such items as school meals, education and free travel, clearly non-cash to recipient.

I do not trouble to comment on several tables and accompanying text because I cannot see their relevance to my note. It occurs to me to ask, however, in relation to their footnote 8, if they wanted an updating of P. Kaim-Caudle's paper so badly, why they didn't do it themselves?

As already stated, the topic of how much of its resources general government should devote to social purposes is an important one about which it is now clear our information is insufficient. It is at least evident that there is a limit to the proportion of resources which government can assign to social as distinct from economic objects—the categories are not exclusive, but they are distinct enough. One assumes that the incremental pound spent socially is less cash income-producing than the pound invested economically—part of a research project would be to investigate this assumption—so, the "right" allocation is of major importance for a country with relatively one of the largest foreign trades (i.e., most exposed to foreign competition) in the world.

The system of parliamentary party democracy practiced in Ireland does not provide a corrective mechanism in relation to the magnitude of social payments: with this system it is difficult to conceive of effective opposition to Government's proposed distribution, however large.

To argue for restraint *now* in this regard is *not* to take a "hard-faced" line in regard to redistribution of income, but rather for larger economic investment now to ensure larger income and hence larger redistribution in future, perhaps in the not very distant future. The French, as usual, have a word for it: *reculer pour mieux sauter.*

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