



THE FEDERATION OF CIVIL ENGINEERING CONTRACTORS

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The Rt. Hon. Nigel Lawson MP,
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HM TREASURY - MCU
20 MAY 1985

EXC
21 MAY 1985
Mr Monck
SUBST. NOT. EST.
Sir P. Niddleton
Mr BAILEY
17th May 1985

MR BATTISILL
MR SHAW
MR CROPPER MR H. DAVIES
MR LORD

Dear Chancellor,

You may remember that in reply to a question from the Shadow Chancellor on 13th December last year, the Prime Minister said:

"Increasing infrastructure is not a cost-effective way in which to increase the number of jobs. The cost per job through increasing infrastructure can vary from £35,000 to £55,000. It is an expensive method, which tends to lead to a lot of hire of plant but not much hire of men."

Since then I have had an extended correspondence with Michael Alison, the Prime Minister's Parliamentary Private Secretary, to try to discover the source of these, to us, highly surprising figures. This correspondence ended with Mr. Alison suggesting that I should write to you, as the Prime Minister's figures had apparently been produced in the Treasury. I understand that he has in fact been in touch with you about this.

Since then we have received a copy of the note which the Treasury prepared for the Building EDC. In case it may be suggested that this note provides a satisfactory answer to our query, I thought it might be helpful to begin by explaining why we consider that it does not in fact meet the point.

Perhaps the most fundamental objection to the Treasury note, is that it is clearly not addressing itself to the point at issue, which was not as the note states "the cost per job of additional public expenditure on investment," but specifically, in the Prime Minister's words, "the cost per job through increasing infrastructure."

Indeed, from paragraph two of the note it seems clear that the Treasury model does not in fact have a category for infrastructure investment. It, therefore, follows that the Treasury model has not and apparently cannot, support the figure quoted for infrastructure.

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The Rt. Hon. Nigel Lawson MP
Chancellor of the Exchequer

It is vital to recognise that infrastructure investment does not merely produce short term jobs. It will produce increasing numbers of new jobs over the full lifetime of the investment. In this respect, at least, it differs from some other kinds of construction, which may be designed to meet social or other important but essentially non-industrial needs.

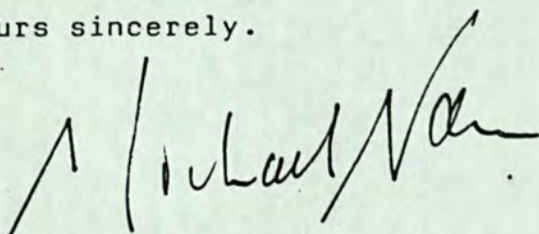
The note, however, makes no mention of this important effect of infrastructure investment. Any examination of the cost of the jobs, which fails to take account of this important long term effect, would clearly produce a hopelessly misleading result.

The note also does not make any attempt to substantiate the Prime Minister's assertion that infrastructure investment leads to more hire of plant than hire of men. We believe that to be factually incorrect. In any event the hire of plant does, of course, itself result in the generation of jobs in the plant hire and manufacturing industries.

For each and all of the above reasons, I cannot accept that the note substantiates the figures quoted by Mrs. Thatcher and in the absence of any further explanation, can only conclude that she was seriously misled on this important aspect of the current debate. However, I would naturally welcome an opportunity to discuss this with the Treasury official who was responsible for these figures, as has been suggested by Mr. Alison.

We do of course challenge the concept that infrastructure jobs cost money at all. Provided that the schemes are, as they should be, profitable in themselves, the jobs should not be regarded as having a net cost but rather as contributing to the profit. However, given that there is understandable interest in the expenditure that would be necessary to generate new employment, it is clearly essential that any figures that are quoted are correct.

Yours sincerely.



Michael Noar,
Director, External Affairs

31 MAY 1985

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