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10 July 1981

Sec Secretary of State

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

Thank you for your letter of 2 July addressed to Keith Joseph in which you suggest that paragraph 9(d) of the Government's reply should make reference to the displacement factor, and that for this reason it is more satisfactory to use a range of PSBR costs.

You are, of course, quite correct in pointing out that the Committee have failed to take account of this factor in their remarks; and that what is really at issue in determining PSBR costs is not the extent to which discharged Concorde workers can find alternative employment, but the rate of job creation for people with those skills in the travel to work areas concerned which, over a period of time, will offset the jobs lost by Concorde cancellation. I have therefore amended paragraph 9(d) by adding a couple of sentences as follows:-

"The rate of net reabsorption must, however, be subject to a great deal of uncertainty due to the displacement factor. Thus Concorde skilled engineers may find jobs at the expense of already unemployed skilled engineers."

The background is explained in a new comment (e), which confirms that this factor was taken into account by the Department in their 3 March 1981 calculations.

I have not, however, taken this further by indicating that PSBR costs would be shown as a range in any set of future calculations presented to Parliament. In the particular circumstances of the Committee's inquiry and the Government's reply, there are good reasons for sticking to the earlier practice of using a single figure which I would be prepared to justify to the Committee and Parliament



generally as representing the Department's best assessment of job creation prospects in the context of the Government's general economic strategy and the results which we as a Government expect from it. In this connection, I see considerable presentational difficulties for the Government in my arguing that job creation prospects have since improved, particularly against the background to which Tom Trenchard refers in his letter of 30 June of deteriorating prospects of redeploying Concorde workers at British Aerospace and Rolls-Royce Bristol, to which paragraph 9(d) as further amended now refers.

There may, however, be scope for presenting, as your letter seems to suggest, an updating of the original calculations and using essentially the same assumptions accompanied by calculations using more optimistic assumptions about the rate of job creation, with an indication - if this indeed to be the case - that, even on these more optimistic assumptions, the estimated costs of agreed cancellation still exceed the reduced costs of continuation.

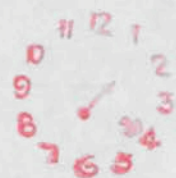
These are, however, matters that will require detailed study before I can take a definitive view. The specialised knowledge of your people will be helpful in this regard.

I am copying this letter to the recipients of mine of 22 June.

Yours sincerely
PF Mass

PF NORMAN TEBBIT
(Approved by the Minister
and signed in his absence)

13 JUL 1981





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2 July 1981

Ken Clark

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

I have one comment on the draft reply to this Report enclosed in Norman Tebbit's letter of 22 June. This concerns paragraph 9 (d) of it, and the reference to my Department in the attached commentary.

There is evidently a misunderstanding implicit in the Committee's remark (in conclusion (v) (c)) that "we do not think it likely, even in a recession, that skilled men displaced from the Concorde project will be long out of work". The Committee does not seem to have taken into account the question of "displacement". It is of course more than likely that highly-skilled engineers will be able to find new jobs quite quickly. But to say this begs the question whether in doing so they will displace other unemployed men who would otherwise have taken those new jobs. The reply should take account of this by speaking of net reabsorption.

What this amounts to is that while we have no quarrel with the first sentence of paragraph 9 (d), the draft reply should go on to say that nevertheless the rate of net reabsorption must be subject to a great deal of uncertainty owing to the displacement factor. For this reason it is more satisfactory to use a range of PSBR costs. (This range would show the costs implied by the reabsorption rate used in Norman Tebbit's memorandum to the Committee at one end and the costs resulting from a rather "more sanguine" rate at the other.)

I am copying this letter to those to whom Norman sent his.

Ken Clark

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