



Treasury Chambers, Parliament Street, SW1P 3AG  
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5 August 1985

The Rt. Hon. Tom King MP  
Secretary of State for Employment

Dear Secretary of State

**ENTERPRISE ALLOWANCE SCHEME**

Thank you for your letter of 23 July. *-will req. if req.*

I am pleased that the MSC could press ahead quickly with pilot schemes to test the effectiveness of increased marketing and that it ought to be possible to gain some indications of the effectiveness of such marketing by September.

You propose that the qualifying period for the scheme should be reduced straightaway from 13 weeks to 8 weeks unemployment. In my letter of 5 July I said that my suggestion of an increase in the cash limit for the Enterprise Allowance Scheme was on the basis that it would not be accompanied by changes in the scheme's existing rules. I can understand the arguments which support such a reduction in the qualifying period. However I think that the effect of increasing marketing ought to be judged against the existing rules. A reduction in the qualifying period would increase deadweight to some extent and so raise the net cost of the scheme. I therefore can not agree to such a change at this stage. I believe we ought to see first what is achievable through increased marketing without changing the rules.

I was pleased to note that you say that there may be scope for finding offsetting savings from policy changes within the Community Programme or from elsewhere within your programme to provide for an expansion of the Enterprise Allowance scheme. I agree that this issue ought to be considered at the bilateral on 16 September. I think it would be helpful if our officials could discuss the possible expansion of the scheme and the necessary adjustments to which you refer in advance of the bilateral.

You also mentioned the question of the tax treatment of the allowance. The present popularity of the scheme does not suggest that tax implications are deterring would-be applicants. But I take your point about the public image of the scheme. I shall have another look at the tax rules, without commitment, to see whether something might be done.

I am sending copies of this letter to the Prime Minister and to David Young.

Yours sincerely  
Tony Kwong

PP NIGEL LAWSON

(approved by the Chancellor  
and signed in his absence)

