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PRIME MINISTERBILATERAL WITH THE CHANCELLOR1. Public Expenditure Prospects

The Chancellor wishes to take you through the magnitude of the problem and the difficulty of the options which will have to be considered. He will also want to agree with you the degree to which you are involved in the discussions. It is probably best for you to hold yourself in reserve to try and settle those differences which not even the Star Chamber is able to resolve.

2. CAA Review

The Chancellor had a further word by telephone with Lord King but got no further. He will want to discuss how next to proceed. The options are to concede now that Lord King will give no ground and to make a statement along the lines suggested at the E(A) meeting; or to play for time in the hope that some way of resolving matters turns up. New factors may not necessarily be helpful, e.g. the Laker judgement, whose implications for privatisation have yet to be studied.

AT

25 July 1984