cies. We will continue to reduce waste and inefficiency in government operation in the years ahead.

The February budget reported on our progress in achieving and increasing an operating surplus. When we first came to office, the federal government was spending $16 billion more on programs—everything except interest costs—than it collected in revenues. In other words, we had an operating deficit. Today, instead of an operating deficit, we have a surplus. The amount by which revenues exceed program spending is $9 billion. That is a turnaround of $25 billion in just five years. With tight discipline and good management, program spending has been dropped from 19.5 per cent of the economy in 1984 to 16 per cent this year. That is its lowest level in 20 years.

The deficit problem that we faced when we came to office was not just a question of too much spending. As the share of national income, federal revenues had been falling since the mid-1970s. This happened for a number of reasons, including the growth in special tax breaks and flaws in the federal sales tax, that is the old manufacturing sales tax which we are about to replace. We eliminated those tax breaks, we closed tax loopholes, and we increased revenues. As a result of these measures, we have brought about a fundamental structural change in the balance of spending and revenues. It is important to note that 70 per cent of this progress results from our expenditure restraint programs.

Our progress towards a better fiscal balance has not come easily. It has been a hard-earned task. We have all felt the impact of the measures needed to protect and strengthen our future, there is no doubt about that. Many Canadians have had to face difficult adjustments during this period of time. But the economic pay-off has been considerable and continues to be considerable. The economy has enjoyed several years—in fact, seven to be exact—of expansion. Employment has grown steadily over this time and grown strongly. After-tax incomes have gone up. Economic opportunities have been increased and poverty has been reduced in the very best way possible, through the creation of more jobs for Canadians, and that is the best way to reduce poverty.

Our national debt, which was $200 billion when we took office in 1984, has grown, we admit, to $350 billion this year, of which more than 80 per cent consists of the compound interest on the original $200 billion. That demonstrates how important it is to get off the treadmill of borrowing money to pay interest on the past debt, and it helps explain why the deficit is still at $30 billion in spite of the reduction in our spending and the actions we have taken to increase revenues over the past five years. It is not easy to reverse a deficit of $200 billion.

The budget set out, however, an expenditure control plan that will ensure that our operating surplus continues to grow. It will allow us to get off the treadmill of debt. However, that means that we must reduce the burden of the rapidly growing interest payments. To do this, we must deal firmly with the greatest single threat to our continued fiscal and economic progress and that is high inflation.

After seven years of strong economic growth, the economy has exceeded its productivity capacity. This has fuelled inflation and the current slowing of the economy is helping to ease the strain, but the underlying inflationary pressures remain far too high. We must lower inflation as quickly as possible to enable interest rates to come down. That way we can put the economy back on a sustainable path of expansion and make even further and more necessary progress on that deficit.

The prospects for lower inflation and interest rates depend on keeping our costs under control. Responsible price and wage behaviour will ensure that the demands we make on the economy are within its capacity to grow and to produce income. Federal government wage increases have been below the inflation rate and below the pace of wage increases in the private sector since 1984. The budget reaffirmed the government's commitment to this kind of wage restraint.

There simply are no shortcuts to solving our economic and fiscal problems and there is absolutely no magic wand that we can wave to lower interest rates. What we must do is deal with the causes and not with the symptoms. Experience shows us that interest rates are a symptom and that inflation is indeed the cause.

The measures announced in the budget will help to ease inflationary pressures and create a better climate for lower interest rates. This, in turn, will help to reduce the deficit in the years ahead. Lower inflation and interest rates and lower deficits will be mutually