

fundamental challenges here at home, including the fundamental challenge of reducing our annual deficit so we secure a future of low inflation and low interest rates.

To achieve our potential for greater economic growth and job creation, it is vital that we build on the hard-earned fiscal progress we have made since 1984.

In a real sense, we have had to fight not one deficit, but two.

In 1984, the federal government was living far beyond its means. It had to borrow \$16 billion just to cover the difference between spending on programs and the revenues it collected. That was the first deficit - the operating deficit.

At the same time, a \$200 billion mountain of debt was generating more than \$22 billion in annual interest charges. Every penny of this interest was paid by additional borrowing. This was the second deficit.

Before we could even begin to deal with this second problem, we had to eliminate the first.

The first priority was spending on government operations - the cost of running the government. In 1984, this cost \$17.4 billion. We have cut this to \$16.8 billion in spite of a larger workload.

In December, the President of the Treasury Board announced further steps to eliminate waste, improve efficiency and save \$1.4 billion over the next three years.

We also eliminated outdated programs and restructured or restrained others. With tight discipline and good management, the program spending that amounted to 19.5 per cent of the economy in 1984 has been reduced to 16 per cent this year - the equivalent to a \$22 billion reduction in spending.

In 1987-88, we reached the first major milestone in the battle against the deficit when we turned the operating deficit into a surplus which now stands at \$9 billion.

However, despite the fact that we have cut the annual growth of the debt from 24 per cent to less than 10 per cent since 1984, the debt is still growing faster than the economy - faster than our ability to pay.