standing of the broader perspective within this initiave must be considered.

We are taking hard but unavoidable decisions to get our financial house in order. We are dealing squarely with the closely-linked problems of the deficit and inflation—the two problems we must resolve if we are to build a secure and rewarding future for ourselves and our country.

As Canadians, we have every reason to regard our future with confidence. But we cannot expect to secure our future if we carry into it an increasing burden of debt, and increasingly heavy interest payments on that debt.

Since November 1984 the government has pursued a coherent and comprehensive plan to build a solid foundation for Canada's economic future. That plan was designed to put Canada and Canadians in a position to meet the challenge of a changing world in a stronger and more flexible way. The plan has two main thrusts. The first is to put the government's financial affairs in order, so that we can reduce and ultimately eliminate the federal deficit. The second is to put policies in place that free the creative energies of the private sector, so that it can meet the competitive challenges and opportunities of the new world economy.

• (1140)

[*English*]

Today I will be speaking about the first of these thrusts. In 1984 when we came to office—and the hon. member for Gloucester will remember—the federal government's spending was out of control. After 15 years of living beyond its means, the government had accumulated a national debt of $200 billion.

Mr. Milliken: What is it now?

Mr. Loiselle: I will explain to you in a minute.

As a result, in a very real sense Canada was saddled not with one deeply ingrained federal deficit, but two. The government was spending $16 billion more on programs and services than it collected in revenues and had to borrow the difference. That was the first deficit, the operating deficit.

The government was also spending—and that was before our time—another $22 billion in interest charges on its mountain of debt and had to borrow that amount too. That was the second deficit. Together they added up to a crushing over-all deficit of more than $38 billion.

Hon. members will be aware and will recognize that before we could begin to do anything about the second deficit we had to tackle the operating deficit and its root causes—overspending and eroding government revenues.

On the spending front, we looked first at the overhead cost of running the government itself—salaries, travel, equipment and the like—to see where we could make do with less. We looked carefully and we took action. We have reduced the number of public servants by more than 12,000. Today the Public Service is the same size as in 1973 and carrying a larger workload. The cost of running the government is less than in 1984. We have reduced the number of Crown corporation employees by 75,000, partly through privatization and partly through rationalization and by the elimination of waste and inefficiency, repairing the damage done by the hon. gentlemen on the other side. We have paid their debts.

We have brought the same discipline to spending on government programs and services. By 1987-88, through rigorous management and realignment of programs, we turned the first of the two deficits, the government's operating deficit, into a surplus. Today, instead of spending $16 billion more on programs than we take in, we are spending $9 billion less, a $25 billion turnaround in just five years. This is the work of an excellent government. If it were not for the interest we pay on the public debt left by the former administration, we would not be talking about deficits at all. We would be in the black.

About 70 per cent of this progress results from expenditure restraint and to achieve it we have reduced program spending as a share of the economy to its lowest level in almost 20 years.

Since 1984, as a result, we have slowed the annual growth of the public debt from 24 per cent to less than 10 per cent this year. Yet, for all this progress, the debt is still growing faster than the economy, faster than our ability to pay the rising interest charges on it.

The reason for this is compound interest: the interest paid on interest. If you are a saver, compound interest has a touch of magic to it. Money invested and left to grow at the rate of 10 per cent doubles in about seven