

three categorical welfare programs to amount to 2 points; the "base load" or welfare portion of unemployment assistance to be represented by an equalized abatement of 2 points on personal income tax, and remaining or unemployment portion to continue on present basis; length of the interim period for four welfare programs to be governed by the timing of the establishment by the federal government of an integrated program of public assistance and, in any event, not to go beyond March 31, 1970;

(c) Vocational training: student aid, vocational high school training, technician training, trade and occupational training (except those elements of the program which are agreed to be concerned with members of the labour force receiving further training), training of disabled, correspondence courses, training of technical teachers: interim period until March 31, 1967; compensation to amount to 1 point;

(d) Health grants (excluding research and demonstration projects): General public health, tuberculosis control, mental health, professional training, cancer control, medical rehabilitation and crippled children, child and maternal health, disability advisory services, blind pensioners treatment: interim period until March 31, 1967; compensation to amount to 1 point.

C. The following programs would be suitable for contracting-out for cash compensation on the understanding that the province would agree to continue to carry on a program of this nature during the interim period, and that the federal government would reserve the right to terminate the program in respect of which contracting-out is arranged at the expiration of the interim period:

(a) Agricultural lime assistance (March 31, 1967) (b) Premium on pure bred sires (March

31, 1967) (c) Forestry agreements (March 31, 1967) (d) Hospital construction (March 31, 1968) (e) Camp grounds and picnic areas (March 31, 1967) (f) Roads to resources (payment of remaining entitlement under the program).

It is the intention of the federal government to introduce legislation to implement the above proposals as early as possible after the resumption of parliament in the autumn of this year. I should therefore be grateful if you would confirm your concurrence in them at your earliest convenience. It would be the intention of the government in the legislation both to authorize the interim agreement and to make the necessary changes in the income tax acts.

May I say, Mr. Prime Minister, that in discussing the above proposals with your representatives, we have sought to find a formula which will meet, as far as possible, the various views which were expressed at the federal-provincial conference last March. As a result of our discussions, it will be possible for a province which wishes, in the exercise of its constitutional powers, to contract-out of all of the continuing programs I have referred to above. For the province which wishes to receive lump sum payments for only a limited number of programs another alternative is provided.

We trust that the formula we have developed, to prevail during the period which our tax structure committee is at work, will be found to be responsive to the necessities of Canadian federalism today and will, at the same time, give the tax structure committee the maximum scope for its deliberations concerning longer-term arrangements.

Yours sincerely,
L. B. PEARSON