

on June 8 and 9, 1964, pursuant to the decision of the federal-provincial conference held in Quebec city from March 31 to April 2, 1964. I should like now to review with you the conclusions which emerged from these discussions in respect of the programs in which Quebec is at present participating. These conclusions are acceptable to me and my colleagues, and I submit them to you for your consideration and concurrence.

Our two governments are agreed, I believe, that it would be desirable to provide initially for an interim or transitional arrangement. Under such an interim arrangement, the province would maintain its present obligations in respect of programs which would be eligible for contracting-out. It would, in particular, continue to provide the services envisaged in them and to furnish to the federal government an accounting of the expenditures incurred under the programs. On the other hand, the federal contribution would, depending on the nature and size of each program, take the form either of equalized personal income tax abatements, subject to adjustments, or of cash payments. The length of the interim period would vary depending also on the circumstances of each program. More permanent contracting-out arrangements would be the subject of further negotiations at the appropriate time, taking into account, among other factors, the experience acquired during the interim period and such recommendations as the tax structure committee might formulate in the meantime on the subject of conditional grant and shared cost programs. Such arrangements might well prove to be part of a new approach to fiscal arrangements commencing in 1967.

The programs which the representatives of our two governments agreed would be eligible for contracting out fall into two categories, it seems to me. The first includes continuing programs which are concerned primarily with social objectives. Excluded from this category are programs involving non-recurring projects, such as capital, research, and demonstration projects. The second category includes a group of programs which are expected to be of limited duration.

It has been recognized from the beginning that the contracting-out arrangements that might be agreed between the federal and Quebec governments should be such as to be readily applicable to any province that might wish to avail itself of them. It was agreed furthermore that a contracting-out province would, during the interim period and subsequently, continue to participate in

federal-provincial bodies and meetings established for the purposes of consultation and co-ordination in fields of activity where contracting out would apply.

As regards the compensation, it was established that it would normally take the form of equalized personal income tax abatements in the case of well established programs which could be expected to continue indefinitely, and the form of cash payments in the case of smaller programs which might not be expected to continue indefinitely.

More specifically, it is proposed that: A. Among the programs to which contracting out would not apply are the following:

1. Capital programs: (a) Trans-Canada highway; (b) Railway grade crossing; (c) Vocational training—capital assistance; (d) ARDA; (e) Municipal winter works.

2. Current Programs: (a) Grants to 4-H clubs; (b) Grants to special fairs; (c) Compensation for animal disease losses; (d) Crop insurance; (e) Farm labour agreement; (f) Health grants (research and demonstration projects); (g) Public health research grant; (h) Training of unemployed; (i) Training in co-operation with industry; (j) Fisheries industries development.

3. Emergency measures.

4. Centennial of confederation.

B. The following continuing programs, which involve primarily social objectives, would be suitable for contracting out in return for compensation as indicated in the form of abatement of the federal income tax by a specified percentage, together with equalization to equate the yield of each percentage point to the average of the two provinces where it is highest. If programs involving a single abatement point were the only ones to which contracting out applied, compensation could take the form of a lump sum payment. In all cases the compensation would be subject to adjustments to bring the compensation to equal actual audited expenditures, and on the understanding that all the other conditions of the programs would be maintained during the interim period:

(a) Hospital insurance: interim period until December 31, 1970; compensation to amount to 14 points.

(b) Old age assistance, blind persons allowances, disabled persons allowances, unemployment assistance; compensation for the 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