

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 a total 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 program 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 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 a contracting-out 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) Campgrounds 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. If your government has in mind the conclusion of arrangements along the lines we expect to be entering into with Quebec, I should appreciate it if you could let me know at your earliest convenience.

In developing these proposals, Mr. Premier, my colleagues and I 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. 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 one alternative is provided. For the province which wishes to receive lump sum payments for certain specific programs another alternative is provided. By means of this approach we hope a formula has been developed, to prevail during the period that our tax structure committee is at work, which is responsive to the necessities of Canadian federalism today and which, at the same time, will give the tax structure committee the maximum scope for its deliberations about longer-term arrangements.

Yours sincerely,

L. B. PEARSON

A copy of letter sent to Quebec.

Ottawa, August 15, 1964.

The Honourable Jean Lesage, P.C., M.L.A.,
Prime Minister of Quebec,
Quebec, P.Q.

My dear Prime Minister:

I refer to the discussions on contracting-out arrangements for conditional grant and