

The increasing number and extent of conditional grant and shared-cost programs has occasioned some provincial criticisms and misgivings. It has been argued that the preponderant occupancy of the direct tax field in the postwar years by the Federal Government encouraged the growth of such programs as the provinces were denied the revenues that would have enabled them to provide equivalent programs themselves. At the 1964 Federal-Provincial Conference, the Province of Quebec proposed that a province be given the option to assume full administrative and financial responsibility for certain joint programs on the Federal Government making available to that province the necessary additional tax room. The "contracting-out" proposal was referred to a federal-provincial committee of officials for consideration. As a consequence of their consideration, the Prime Minister of Canada, in a letter to the provincial Premiers dated Aug. 15, 1964, proposed a temporary measure permitting a province to contract out of certain programs for an interim period pending the development of more permanent arrangements. Parliament approved the necessary legislation—the Established Programs (Interim Arrangements) Act—in April 1965. Under the Act the Government of Canada is authorized to enter into agreements with any province that wishes to contract out of certain conditional grant programs. The nature and number of programs are itemized in the schedules to the Act.

Schedule I lists the major conditional grant programs of a continuing nature which a province may contract out of, and Schedule II lists smaller and more transient programs. The Schedule I programs are: (1) hospital insurance; (2) old age assistance, blind persons' allowances, disabled persons' allowances, and the welfare portion of unemployment assistance; (3) the technical and vocational training programs for youths who are not yet members of the labour force; and (4) the health grant program, except those elements that involve research and demonstration. The Schedule II programs are: (1) agricultural lime assistance; (2) the forestry programs; (3) hospital construction grants; (4) campgrounds and picnic areas; and (5) the roads to resources program.

If a province wishes to contract out of a Schedule I program, it must enter into a supplemental agreement in which it undertakes to assume full responsibility for the administration and financing of the program. The Federal Government undertakes to ensure that the province receives revenue equivalent to the fiscal burden it assumes. The Federal Government undertakes to (a) abate by a specified percentage the federal individual income tax on the income of residents of the province; (b) pay an associated equalization; and (c) make an operating cost adjustment. The operating cost adjustment payment or recovery is to ensure that a province does not suffer or benefit financially through assuming the financing of the federal share of the former joint program. Because of their smaller size and lack of continuity, the compensation associated with contracting-out of a Schedule II program does not provide for federal tax abatement or associated equalization payments. The compensation for these programs will be paid directly to the province by the federal Minister of Finance.

The freedom of a province to vary the nature and condition of a program which it has contracted out of differs between the Schedule I and Schedule II programs. Under the Act, a supplemental agreement with respect to a Schedule I program can vary the conditions of the original agreement only as to the manner in which Canada will contribute to the program and the manner in which accounts are submitted. A supplemental agreement for a Schedule II program may require the program to be continued as in the original authority or it may allow a province to substitute a provincial program whose objectives are substantially similar.

The Established Programs (Interim Arrangements) Act is designed to provide for an interim period during which a province may assume greater administrative and financial responsibility for the enumerated programs and during which time more permanent arrangements governing joint programs may be devised. The length of the interim period is set out in the Act for each program and varies from Mar. 31, 1967 to Dec. 31, 1970. The tax abatement associated with Schedule I programs is also set out in the Act and varies from 1 p.c. for the health grants program to 14 p.c. for hospital insurance.