

The Schedule I programs were: (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 were not yet members of the labour force; and (4) the health grant program, except those elements that involved research and demonstration. The Schedule II programs were: (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 wished to contract out of a Schedule I program, it had to enter into a supplemental agreement in which it undertook to assume full responsibility for the administration and financing of the program. The Federal Government undertook to ensure that the province received revenue equivalent to the fiscal burden it assumed. The Federal Government undertook 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 was to ensure that a province did 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 did not provide for federal tax abatement or associated equalization payments. The compensation for these programs was to 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 differed between the Schedule I and Schedule II programs. Under the Act, a supplemental agreement with respect to a Schedule I program could vary the conditions of the original agreement only as to the manner in which Canada would contribute to the program and the manner in which accounts were submitted. A supplemental agreement for a Schedule II program might require the program to be continued as in the original authority or it might allow a province to substitute a provincial program having substantially similar objectives.

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

The Province of Quebec alone availed itself of the above legislation and entered into agreements contracting out of all Schedule I programs and one Schedule II program, the forestry program. At the federal-provincial meetings in September and October 1966, the Federal Government proposed a slightly revised contracting-out arrangement to the provinces who had not taken advantage of the Established Programs (Interim Arrangements) Act. The Federal Government proposed to abate, for the period 1967-70, 17 p.c. of the personal income tax in those provinces that would take over the financial responsibility for the hospital insurance, welfare (i.e., Canada Assistance Plan) and health grant programs. To ensure fiscal equity, equalization and operating cost adjustment payments were to be associated with the abatement. As the technical and vocational program was being discontinued in its existing form, the offer did not apply to that program. None of the nine provinces to whom the offer applied accepted the offer. In consequence, the legislation governing the contracting-out arrangements with Quebec was amended to include the Canada Assistance Plan and to extend the interim period to Mar. 31, 1970 for the welfare programs and health grant program.