

Business Day

## Granting provinces more power could stimulate growth

by [Khulekani Magubane](#), 10 June 2016, 05:42

A POSSIBLE solution to the disturbing images of unemployed graduates standing with "please hire me" signs at intersections may be more power granted to SA's nine provinces.

The provincial dispensation was the outcome of an attempt to ensure the inclusion of minority parties, such as the National Party and the Inkatha Freedom Party, at the start of the democratic era, rather than a functional system designed to solve social problems.

Today, provincial governments complain that they are merely "toy telephones" and "postboxes" for paying the salaries of public servants — mainly in health and education — over whom they have no real control.

About 95% of provincial expenditure is "nondiscretionary".

Some political commentators argue that the best solution would be to scrap provincial governments and to centralise their functions to achieve greater efficiency.

The Institute of Race Relations (IRR) proposes exactly the opposite: it believes one solution to the downward spiral would be to give provinces more authority to develop economic policy. This, the institute says, would allow each province to establish a tax system and labour regime.

According to chapter six, section 104 of the Constitution, provinces are given legislative powers through their legislatures to pass or amend their own constitutions.

However, the Constitution later restricts the powers of SA's provincial legislatures.

The IRR's report is informed by SA's migration patterns. Graduates often leave their home provinces in search of work in Gauteng or the Western Cape and send money to their families after they find work.

IRR CEO Frans Cronjé says pressures on the economy mean the centralisation of government economic policy formation will not remain feasible for much longer.

"We are keen on a more federalised approach to SA. The idea of an SA run out of Pretoria is not going to work," he says. "When we did the report, we realised, as far as drawing investment and creating jobs, the six poorest provinces have no chance of gaining an advantage over Gauteng and the Western Cape."

Cronjé says that if provinces were given the power to develop their own tax incentives for business, and their own labour regimes, they would be better placed to capitalise on their unique characteristics, and would create resilient provincial economies.

IRR researcher Thuthukani Ndebele writes in the report that the three largest economies — Gauteng, the Western Cape, and KwaZulu-Natal — make up 55.2% of the national population, but contribute 64.1% to GDP.

"A common trend is that less developed and less prosperous provinces lose their younger populations to better-performing areas. A one-size-fits-all approach to provincial policy-making does not work, and the poorer provinces ... need greater autonomy to position themselves as competitive investment destinations," argues Ndebele.

Economist Dawie Roodt says the IRR's argument is a good one. However, it would not yield the desired results, unless there were a clear plan on the distribution of skills and areas of expertise among the provinces.

"According to the Constitution, the provinces do have a say over certain factors of economic policy, such as value-added tax. It is not necessarily new, but it can be done. I would say it is a very good idea, because it sparks competition."

Roodt says giving provinces the powers to establish economic policies would require approval from the Treasury. He believes Finance Minister Pravin Gordhan would find the proposal appealing.

Financial and Fiscal Commission chairman and CEO Bongani Khumalo says that while provincial governments are given the room to determine certain taxes, the spheres of government are designed so that national, provincial, and local governments are co-dependent, not independent.

"I don't think we are saying they need to make their own systems, because they are interdependent, and not independent. There are traces of fiscal federalism in the sense that you can impose some taxes, but SA is a unitary state."

Political analyst Somadoda Fikeni says that while the IRR's proposal is constitutionally possible, it is unlikely the ANC-led government would approve of more independence for provinces.

"You would have to go back to the federal state, which the opposition have called for in the past. They wanted autonomy. National government is unlikely to agree with that," he says.

Fikeni says it would be critical to establish the capacity of each province to develop policy and attract investment before making such a decision. Failure to do so would result in provinces being vulnerable to more economic decay.

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