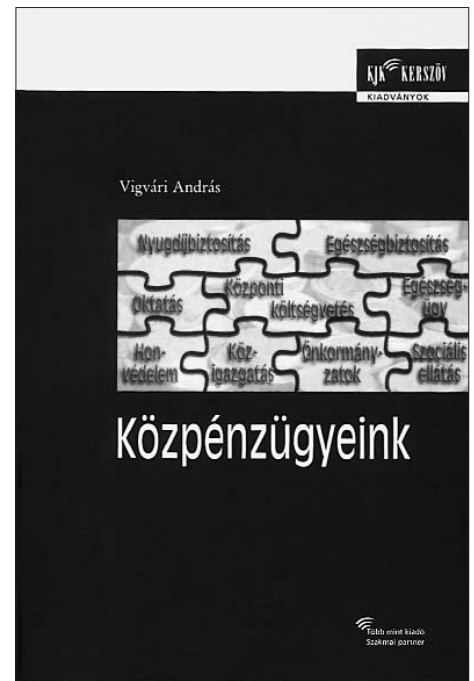


András Vigvári

# Our Public Finance

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Money is the most serious issue in modern societies. Moreover, in democratic societies there is an even more serious issue: public funds. A decision made on the appropriation of public funds – let it be either on the national or local level – is always the test of practicing democracy at the same time. As a logical outcome of these truths, very many different publications regarding information or views on public funds are made either orally or in written forms. Similarly, we often come across the term 'public finance'.

But in the first place: what is public finance? If we had to give a quick answer, we may become embarrassed. We don't have any problems as long as we have to cite the practice of public finance established over a long period of time. Experience has proven that a democratic society can only evolve in a mixed economy, in which the public sector operates as the necessary supplement to the market, therefore pub-

lic finance must be in place in such economies. The difficulty lies in the precise, scientific definition of public finance, but at present we do not have an undebated definition of it. Even today many of us have different concepts of public finance. The statement attributable to *John Stuart Mill* is possibly true in this case as well, that the definition of a science has almost invariably not preceded, but followed, the creation of the science itself. If someone today wants to write about public finance, he cannot rely on the exact definition of public finance, but based on some guidelines, normally deals with one particular public finance system that is already operating in practice.

However, the different views are quite close to each other regarding that it is still important sometimes to deal with public finance by using a practical approach. The importance of public finance for us has been further increased by our membership in the EU. Namely, a special situ-

ation has been created within the framework of EU operation, that while monetary policy was escalated to the EU level, fiscal policy remained at the national level, it remained the most important arena for governments for maneuvers to make economic political decisions.

*András Vigvári* made a major undertaking when he summarized our public finance according to his own logic in a book. The book deals with the operational issues of community financial system, it tries to depict the operation system. The approach is based on practical motivations. Emphasizing the operational aspects of the systems helps to make a clear-cut distinction from other areas like the economy of public sector or public policy.

Although the scope is well-defined, it is still not an easy undertaking to write a good book on public finance. This issue has a considerably extensive literature, ranging from works that build on axioms and are excessively theoretic to those on the other extreme that are too practical. Objections against the first approach involve claims that there is no connection with practice, while the problem with the second approach is usually that practice is quite “liable to deterioration”, therefore it is difficult to write a book for long-term use.

*András Vigvári* has selected a very good framework of thoughts for summarizing our public finance, since describing the issues with a system approach facilitates for us to have a better overview of the system of public finance, where describing the macro-and micro economic issues, presenting the tasks, financing needs and methods are all included. In addition to this, the author can claim to be lucky to have been able to rely on the experiences of his two former books written in this subject, thus 'Our Public Finance' can be considered as an already boiled-down, didactically systematized summary of a diverse system covering several areas. Apart from the system approach description the author's intention to make the book more

colorful by incorporating some autobiographical elements should be also highlighted, and made his views more well-founded by emphasizing the chronological aspect that nowadays is often missing from our professional books. The inclusion of charts supporting the understanding of correlations and the 'What costs how much' subchapters at the end of the chapter proved to be a good solution. The latter is especially important because it is hardly possible to discuss economy and finances without measurement and analysis.

■ Chapters 1, 2 and 3 can be considered as *the first part* of the book based on the conceptual unity. By using the facilities offered by system approach, in this part the author describes the types of state roles and the government sector, somehow thus giving the reader a general idea of what public funds are utilized for. The book is started with the budget debate of the local government's management of an imaginary town in the first chapter. Starting with a description of the practice is helpful for inexperienced readers to grasp the significance of terms and correlations discussed later in the book. The description of the economics aspects of the state's financial role in the second chapter is started with an analysis of the government's regulative, allocative, redistributive and stabilizing functions. He introduces the structure and operation of the institutional system that facilitates the practical implementation of the different functions. By describing the historical theoretical background regarding the state's economic role, the author lays the foundation of a detailed understanding of how the public finance sector of a modern, mixed economy operates, which is discussed in later chapters.

(Unfortunately the Hungarian economics and education often pay little attention to introducing the history of this science, therefore the initiative is especially welcome.) The third chapter that deals with the micro economy of the public sector, provides the basis for

an understanding of the „micro economics” of state's role regarding public finance and thus discusses the state's functions with a new market economy approach. The further interesting feature of chapter 1, 2 and 3 is that the changes in public sector role is also analyzed in relation with the tertiating of the economy, namely the dynamic headway of the service sector.

■ Chapter 4, which can be considered *the second part* from a thematical point of view, may be the most original part of the whole book. This is where the author discusses the functions and factors of public finance. Apart from the fund-raising, and allocating, incentive, management and control functions, the author sets out the elements of the public finance system, then comes the detailed description of the structure encompassing these elements. What should be separately mentioned in the elements is the thorough description of stakeholders and roles and the systematic demonstration of the different financing instruments. The presentment of the basic structural elements of the public sector can be also successfully used for resolving different practical problems. This chapter well lays the groundwork for the later chapters of the book. Just to mention an example: he defines and organizes the types of risks inherent in public sector.

■ *The third part* includes chapters 5 and 6. Chapter five explores the impact of public finance sector on other subsystems and stakeholders of the economy, what affect the tax system on the revenue side and the budget on the expenditure side has on economic processes. Then he reviews the problem of deficit arising from the variance between revenues and expenditures, its recognition options, indicators, the established practice for government debt financing and its economic consequences.

The particular items of budgeting are just as well present in the individual managing organizations like in the broader systems. In chapter six we can get acquainted with the principles of

this, focusing on the budget, asset management, funds management, capital market operations and information management. Given the financial orientation of the book, labor management is only briefly mentioned, and the control and reporting functions are detailed in later chapters. One of the most important view-shaping conclusion may be the author's remark regarding that although the majority of principles is related to the appropriation of public funds, the term management represents a much broader concept than the simple appropriation of public funds!

■ Chapters 7, 8 and 9 constitute *the fourth part* of the book. The levels and subsystems of the state budget are described in chapter 7 in a not too detailed manner, but instead giving an overview of the function and operation of major areas. Certain previously mentioned subjects also recur with regard to analyzing the correlation between the state budget and the Hungarian conditions. Tax system, treasury system, government administration, social insurance funds, appropriation funds, local governments, the basic units of state budget management and state budget assets are the main subjects mentioned in this chapter. At the end of the chapter the reader finds the appropriate sources to gain more knowledge about this subject. Chapter eight discusses the budget of the European Union. It reviews its development, by which the present system has been shaped. It introduces the directives and principles, within the framework of which planning is made, the procedures for budget planning as well as the function of different institutions within it. Meanwhile, the author concentrates on those alterations and special features, which are different from the national and sub national budgets. The chapter is concluded with an outlook to the possible future of the EU community budget.

Chapter nine on the toolkit of regional and settlement development on the one hand con-

tinues the description of the European Union subject matter by describing the regional development system. This is specially justified because after having acquired the EU membership, our country's toolkit of regional and establishment development accommodates to the EU structural and cohesion political framework. Also true to this chapter, that it does not strive to describe all the partial rules, it does not show the individual “trees”, but it shows the “woods”. By describing support intensity, a less known term in professional literature, a comprehensive picture is depicted of this professional area, too.

■ Finally *the last two chapters* as an independent unity of thoughts guides the reader – contrary to customary approaches – to areas of increasing importance but which are less discussed. Chapter 10 deals with one of the key areas of public sector. We can have an insight into how this important management tool is applied, we can get a general view of accounting. We can get acquainted with the differences between cash flow and profit-oriented approaches, as well as through examples with the motivations and difficulties of the transition to the profit-oriented approach. The chapter also explores the problem of cost-and performance measurement, and emphasizes the differences from market players. The basic features of cost-benefit analysis are also included at the end of the chapter.

Chapter 11 gives a concise, straightforward summary of public funds control and those basis concepts and correlations appear, without the knowledge of which the philosophy of modern financial control cannot be understood.

■ As I already mentioned, another book by the author on a similar subject has been published, so he would have had the chance to make a corrected, extended version of this previous issue. However, in good cooperation with the publisher, the author decided on adap-

tation. The outcome justifies the correctness of the decision. A new book has been born, which overwrites the former one in many respects. It is good that the approach hasn't changed basically, the system approach type of description remained. At the same time it is apparent that the author has utilized his educational experiences and by relying on them the book has become more didactic, systematic and expressive than the former one.

Possibly the experiences gained from teaching gave rise to the idea of applying solutions that are unusual in professional books but are very useful. Such are the similar questions at the end of the chapters, including Internet knowledge base for further increasing the understanding that can be gained from the book.

The high degree of openness of the approach revealed in the book reserves separate mentioning. The author does not review the discussed subjects as completed sciences, but always refers to other possible interpretations, too. This approach must be appreciated because it gives evidence that issues discussed under the title 'public finance' cannot be molded into a homogenous mass, since these issues are exactly the ones for which perpetual professional debates represent the status quo. In other words this means that in case someone expects undebated, all-time correct conclusions on any of the public sector issues, he is strayed.

Whom can this book be offered to? Those days are gone when books were targeted to a well-defined group of the public. It is difficult to tell whether a given book serves as a university textbook, a professional or educational book. It is not shameful if a scientific book is an educational book at the same time. Certainly this makes the author's task more difficult but András Vígvári managed to well adjust himself to this requirement. Accordingly, his book discussing our public finance may well support university education,

the needs of professionals working on a public finance area, but it can be also read by non-specialists with interest in this subject. In this age of lifetime learning even those participating in adult training can use it. If we consider that today even at the highest level of government administration the issue of public sector reform is dealt with daily, then the publication of the book appears to be specifically timely, since the applied system approach is adequate for handling this complex process.

Finally let me conclude this review by highlighting the good cooperation between the publisher and the author. The publisher assisted to convey the author's ideas to the readers in the appropriate form with high-standard editing and design. In the competition to get into the readers' good graces such cooperation has great significance, especially if its fruit is a nice book both in contents and appearance.

*József Sivák*

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#### NOTES

<sup>1</sup> Közpénzügyek, önkormányzati pénzügyek (KJK-KERSZÖV, 2002) és Pénzügy(rendszer)tan (KJK-KERSZÖV, 2004)