

The comprehensive manual of public finances

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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. In 2005 I prepared a review on the book written by András Vigvári, which I started with these sentences. Unwittingly, the same thought occurred to me when I took into my hands the *Comprehensive Manual of Public Finances*, which has been published in response to the recently increasing professional and social interest in and attention to public finances. It is well known that public funds are key to the successful functioning of modern economies, since “developed and moderately developed countries use 40 to 60 per cent of their gross domestic product directly through the channels of public finances” (excerpt from the preface of the book). However, it is a question whether utilisation also means financial management, and whether public funds are really funds that belong to all of us, and should be

spent for the public good. In the past years some “naive social astonishment” at the operation of the public sector in terms of public funds, as well as the professional vigour that in turn commenced in practice, research and education alike could be witnessed in Hungary, too. However, for the time being this can only be called a brave beginning on the road to a public finance culture expected to prevail in any modern economy.

As a first reflex, the reader is impressed by the immenseness of the undertaking: can a single volume summarise everything that could be known about public finances by 30 June 2009? Then he is fascinated by the extraordinary “parameters” of the undertaking: 1,103 pages on the professional subject matter, 17 authors, 402 major concepts and topics, 130 legal regulations affected and referred to in the explanation; the explanation and definition of acronyms alone occupy nearly seven pages. The

number of tools designed to facilitate understanding is also impressive: 75 tables, 129 figures, diagrams and 20 sample documents.

In the preface to the book the editors themselves write that they have set a very ambitious goal for themselves by writing and editing the book. It may not sound as commonplace here that we are witnessing a groundbreaking undertaking. Knowing the above parameters of the manual, the reviewer has his work cut out, too, when attempting to review it. After considering the task, I have found that in terms of genre the best solution is to try and present the major elements of the rich content in an attention-wakening manner in the preface. This helps those interested in deciding whether they will use this book as an aid in their job, or will set to research and summarise different topics on their own, sparing no time and pains. At first sight the structure of the book seems to be a bit complicated. However, once the reader is familiar with the structure of the budget, he will get used to the way the book is structured: altogether it consists of nine *parts, titles* within the parts, chapters within the titles, and finally, within the chapters the framework of the description is made up of *definitions, topics* and *correlations*. In the following I will attempt to present the contents of the different parts.

■ *Part I presents the tasks of the state, as well as the public and the governmental sectors.* As a starting point, changes in state tasks are described in a historic context. The presentation of the basic functions of the modern welfare state (public power, welfare and economic functions) is followed by what the size of the state should be. After the comprehensive examination of the tasks of the state, as well as regulatory and institutional questions, the definition of the public sector is introduced: in fact, it is defined by the book in the broadest possible interpretation. The system of public finances forms part of the public sector.

The system of public finances is the system

for funding state tasks. The tasks are completed by public finance institutions (in 2009 by 13,300 institutions, including 12,700 at local governmental level). In relation to the distribution of tasks within public finances, the definitions of decentralisation and deconcentration are explained. I must specifically note that the book presents the various governmental models (Anglo-Saxon, Unitarian, Mediterranean, etc.).

After the presentation of state tasks, as well as the definitions of the public sector and public finances, the chapter describes the day-to-day operation of the system. Starting out of the fact that the financial management systems are adjusted to the various constitutional systems of the different countries, the Hungarian system can be evaluated in this context. The book states that “the current system reflects well the needs related to the distribution of tasks implemented by the state and the local governments, as well as in conjunction with the private sector” (page 114). I find the presentation of the international experiences of the treasury system (i.e. the discussion of the German and French treasury systems) praiseworthy in this relation, too.

The presentation of the place and tasks of voluntary organisations from the aspect of the public sector as a whole satisfies a very important professional requirement. The presentation of the principles of church financing is equally successful.

■ *Part 2 is about the financing sources of the public sector.* It discusses taxation from the approach known from the economic literature, which includes the presentation of the objective, the classic principles of taxation, as well as the possibilities and limitations of the taxation policy. The reader can find the comprehensive classification of taxes present in the Hungarian tax system, and in relation to this, the analysis of taxes by functions, the correlations between labour and capital load, and the concept of the more and more frequently mentioned tax

wedge. The comparison of the tax systems operating in the EU-15 and EU-27 countries constitutes a high profile part of the book.

Within the framework of public sector financing the Manual discusses three other topics that are major issues by themselves, too:

- issues of cooperation with the private sector, i.e. PPP (Public Private Partnership) based financing,
- the economic foundations of the local governments,
- the issues of the deficit and public debt.

Novel methods are being sought for solving the financing problems of state tasks and public services all over Europe. This is how we could get to know the operational features of outsourcing, PPPs, the voucher system and other mechanisms, and this is how we could examine the possibilities for domestic application. During the presentation of the PPP scheme the Manual describes the advantages and risks of application, the legal regulatory conditions and the concrete areas where this financing scheme already seems justifiable.

In this part the local governmental system is discussed in relation to the financing funds. It is worth noting the discussion of the significance and operational problems of local governmental assets. The most frequent problem of financing occurs when the harmony between revenues and expenditures cannot be created at the first attempt. The precise definition of the deficit and public debt, the time series of the numerical values of the gross public debt, the presentation of the sizes of deficits calculated in the various accounting systems help the readers orient themselves in this issue, which requires extensive professionalism. Knowledge about the deficit and debt of the public sector is significantly enhanced by the section of the book that examines these concepts in the international setting, too. The history and strategy of treatment of the issue in Hungary can be easily followed on the basis of the definitions.

The presentation of the changes in local governmental debts, as well as of the theoretical and practical significance thereof for the public sector and public finances as a whole is a good conclusion for the section on financing.

■ *Part 3 summarises the functions and planning methods of the budget*, which is presumably the best known segment of public finances. The budget is a future oriented monetary fund, a financial plan established for the achievement of state objectives. The formulation of the objectives to be met is always a political decision about the relationship between the state and the society, as well as between public interests and public power. The state basically strives to achieve five objectives: optimum income distribution among income owners, good balance of payments, optimum level of employment, price stability, permanent economic growth.

“In theory, the operation of the state and the application of the decision-making mechanisms of the budget are based on an invisible social contract, in which the members of the society, individuals and institutions give up some of their economic independence for the implementation of state tasks, and accept the consequences and obligations arising from the existence of the state”. (page 302) The discussion of the functions and planning of the budget starts out from the broadest possible definitions, and from the presentation of the concepts it gets to publication in a legal document. One of the most important issues is the distribution of responsibilities and powers within the central government and among the different tiers of government.

The modern principles and planning methods of budgeting are discussed in detail. This is the section that also includes the discussion of the role of transparency and impact analysis, as well as the presentation of the fiscal golden rule. The next important chapter of this part is the description of budgeting techniques (zero-

base budgeting, performance based budgeting, and other planning techniques).

The international comparison of the procedures of budgetary legislation starts out from the fact that “in the European Union there are no mandatory requirements regarding the management and mechanisms of public finances. Only the target system to be achieved - the so called »Maastricht criteria« – are specified” (page 349). The Manual compares the Greek, the Swedish and the British examples with the Hungarian system in a versatile approach.

This part ends with the very detailed presentation of the budgeting of the social security funds, and of local governmental budgeting.

■ *Part 4 summarises the information system of public finances.* Public finance related data are managed by three major information systems: the budgetary information and control system, the accounting system and economic statistics. In relation to the development of information systems two tendencies must be mentioned. According to one tendency, the methodologies used for the private economy and public finances are becoming increasingly universal both in accounting and statistics. The second tendency is related to globalisation. There is increasing demand for the comparison of information among the countries, which leads to the approximation and standardisation of statistical methods. This is why it is appreciated that the authors enclose the English versions of the terms in the definitions.

In state financial management the function and approach of accounting differ from those established in the world of business in many aspects, wherefore their presentation from the general accounting frameworks to the practical characteristics significantly helps experts interested in public finances deepen their knowledge. A significant chapter of this part describes the basic characteristics of the national accounts. The national accounts pres-

ent the effects of production, consumption and accumulation on the income and financial transactions, as well as on the financial standing. Knowledge of the difference in the calculation of individual indicators (such as the GDP) according to the ESA or the GFS methodology has by today become indispensable for experts working in the field of public finances.

In Hungary, the provision of statistical services is divided among the various public administration institutions. In terms of public finances, the major roles are played by the Ministry of Finance and the Hungarian Central Statistical Office (HCSO). In relation to the international approximation mentioned above, the inclusion of Hungarian public finance information in the EU processes (EURO-STAT) must be mentioned.

■ The execution of the budget is in fact a set of operative financial management tasks related to the completion of state tasks, which includes the collection of revenues and the realisation of expenditures. *Part 5 begins with the presentation of the fundamental principles of execution.* Then the reader is introduced to the details of operational functioning, such as the assumption of responsibilities, the content and format of performance certificates, and even the presentation of the concrete form.

One of the most important requirements of execution is the regulated, transparent and efficient utilisation of public funds. Public procurement procedures represent a milestone towards the completion of this requirement. The reader can get to know the rules governing the public procurement procedures, the participants, the forms of procedures, as well as the rules pertaining to legal remedies. Hungarian public procurement procedures are often criticised for being too complicated. Here, one can clearly see the logic and structure of the system. The international correlations of the public procurement procedures are shown through the presentation of the public procurement

principles and regulatory systems of the WTO and the EU.

In the utilisation of public funds the most important players are the public institutions, the budgetary organisations, as well as public employees and civil servants working in these institutions and organisations. The appropriations of budgetary organisations are mostly for operational and wage costs. The development of the Hungarian civil service system was an important precondition for the establishment of the modern public sector. International experiences are important in this respect, too, wherefore the authors also present the German and English civil service system. Part 5, which covers the execution of the budget, ends with the presentation of the categories contained in the public employee and civil servants acts, as well as of guidelines assisting the analysis of employment.

■ *Part 6 presents the concepts and system elements of public finance level reporting in a uniform framework.* The significance of reports and accounts on the utilisation of public funds is shown by the fact that they are regulated in legal regulations of the highest level, such as the constitution and the act on public finances. This part presents the legal and content requirements of the reports, especially in relation to the central budget and the local governmental system. The cash-flow based table of the major characteristics of certain subsystems of public finances, and the consolidated functional balance sheet of public finances provide a good illustration of the macro-level structure of public finances.

The sample decrees prepared for the presentation of the reporting system of the local governments, and the sample statement of assets are impressive additions to the explanation and content description of the concept.

Due to their specific operation and role on the market, budgetary institutions fulfil their reporting obligations in accordance with the

provisions of the government decree on the specific reporting and accounting obligations of public finance institutions. The chapter on the micro-level reporting system contains a very detailed description of the types of reports, the specific features of the accounting balance sheet, as well as the indicators used for the assessment of the realisation of revenues and expenditures.

Compliance with the reporting obligation arising from Hungary's EU membership assumes the standardisation of the use of concepts, as well as the knowledge of the transition between the different concept categories. EU analyses use different terms in reference to budgetary finances or public finances (*public finances, government finances, fiscal developments, fiscal stance*), to the budget deficit (*deficit, financial balance*, budget position, budget balance, public deficit, government balance), as well as to public debt (*public debt, state debt, government debt*), which requires the cautious use of terminology. The Manual presents the principles and rules of the preparation and submission of stability and convergence programmes, as well as the rules, requirements and practical steps of the excess deficit procedure. The method of calculating government deficit or surplus, and the computation of the ESA deficit are made extremely tangible and understandable by the table showing concrete figures for 2007.

■ The institutional system of public finances is universally characterised by the fact that public funds are used for the completion of the tasks involved. During the audit of the operation of public finances it must be presented whether the institutions pursued regular, cost-efficient and effective financial management in the utilisation of public funds, in the solution of state tasks, and in the provision of public services. *Part 7 is about the audit of public funds.* The presentation of the system of audits requires the presentation of the complex

institutional system and regulatory system. Within this framework at least the following questions need to be answered:

- what risks may occur during the utilisation of public funds in practice, and what are the possible means of risk management?
- on the basis of what audit standards and guidelines can the audit be performed, in compliance with the latest international consensus?
- which organisations are involved in performing the audits?
- how can the independence of the audits be ensured?

All of these questions are answered in the Manual. The reader can get to know the major elements of the international audit standards and the international standards of supreme audit institutions, the structure of such standards, the role of the internal control mechanism, as well as the logic and practical application of ex-ante and ex-post financial management controls.

■ A separate part, *Part 8 discusses the characteristics of the EU budget*, as well as policies funded from this budget. It is common knowledge that the budget of the EU is not a kind of integration of the budgets of the member states. It is a budget having its specific features, which naturally shows many formal similarities with the national budgets. The budget is based on principles that were developed and established as a result of long-term discussions (indivisibility, cohesion, subsidiarity, no deficit, co-financing and measurement in a single currency). This part of the Manual gives a concise summary about the process of development, elaboration and approval of the common budget, which involved a lot of discussions, as well as the structure of revenues and expenditures.

This part also contains the Hungary-specific features and concepts of the assistance policy of the EU. In compliance with the current programming period of the EU (2007–2013), the

2nd National Development Plan was completed. The plan specifies to which development programmes Hungary intends to use EU subsidies. On the basis of the development plan, one can get to know the latest principles and directions of the assistance system of the EU, the application thereof in the Hungarian setting, and the institutional system of utilisation. Subsidies can be used along a well-defined strategy, which includes the following elements: enhancement of competitiveness, building of a knowledge-based society, supporting sustainable growth, and contributing to the building of a converging society. The detailed presentation of the 2007–2013 programming period allows the reader to get a full picture about the content of the operational programmes and the concepts related to the utilisation of EU subsidies, and the correlations between the different elements. A separate chapter is devoted to the management and control system of the utilisation of EU subsidies.

The practical implementation of the support policy is based on projects, with projects representing the smallest elements of subsidisation. The project approach is gaining ground in the Hungarian practice, too. In this part one can find a good summary about the concepts of project planning, project budgeting and project management, as well as about the practical application thereof.

The effectiveness of the utilisation of public funds has been a central issue of interest and debates since the formation of the welfare systems. Economic development is on the one hand accompanied by growing social pressure to increase the role of the state, while on the other hand the limits of welfare systems become explicit both in terms of the scarcity of resources and competitiveness. The need for the almost continuous reform of the welfare systems targets the elimination of these barriers.

■ *Part 9 reviews the main directions and intentions of public finance reforms.* The difference

between the individual intentions within the reforms is especially implied in the fact to what extent the changes are systemic, and to what extent they remain non-systemic in nature, i.e. to what extent they aim to fine-tune the individual elements of the existing system, or improve the harmony among these elements. Since the changes can be extremely costly, the group of non-systemic changes is growing in the practice of the individual countries. In this approach the main elements of one of the trends are the following: modernisation of the financing systems, reform of the taxation system, development of the budgetary procedures and methods, strengthening of the budgetary discipline. The other group of reforms focuses on the enhanced organisation of services within the implementation of state tasks, as well as on the improvement of the quality of services. In connection with this latter trend, the book discusses in detail the concepts and topics of the new type of public management. In relation to tax reforms, a detailed comparative account is given about the tax reforms in Germany, Sweden and the Netherlands.

The public finance reforms are affected by the globalisation processes, too. These impacts primarily manifest themselves in the standardisation of the governmental sector, as well as in the enhancement of open coordination. Although meditation about the future of the EU budget does not fit the genre of an encyclopaedic publication, presentation of the current conflicts can still be squeezed into this framework: the presentation allows conclusions about the expected main trends of the debates. In this large-scale learning process Hungary as a member state will have a crucial role to play, and this will be significantly supported by this part of the book.

From among the Hungarian efforts made to establish an institutional system serving the reinforcement of budgetary discipline the book highlights the areas in which progress must be

achieved compared to the current situation. These areas include the following three important fields:

- structure and presentation of the budget, introduction of performance management and evaluation, promotion of integration with financial management,
- modernisation of the operation of the treasury, enhancement of the efficiency of audits and reporting,
- establishment of an integrated, government level financial information system.

In the preface the editors start the book with the conviction that “no adequate remedy can be given to Hungary's economic and social ills without the strong development of the institutions and culture of the management of public funds”. However, when the reader is confronted with the size of the task upon reading the Comprehensive Manual, he will wonder whether a perceivable quality change can be expected in the spread of the culture of public funds. A good answer to this question must be the formulation of the tasks to be completed from the level of professional decision-making through education and research to promotional actions. The Manual provides great assistance in this, since it systemises public finances from the basics to the multitude of details. This is not a course-book, i.e. public finances shall be no learnt from this. However, it contains almost everything that can be known about this world.

The merits of this splendid undertaking are not diminished by reviewer's feeling that the different parts of the book contain noticeable, but non-disturbing unevennesses in terms of elaborateness. In addition to differences in style, this unevenness manifests itself for example in the fact that within public finances financial management by the local governments is emphasised and detailed more than it should be according to its monetary value. Judging from the professional background of

the editors, this may have well been a deliberate move. However, such unevennesses are well counterbalanced by the fact that the Manual also presents the non-public finance organisations and utilisation rules of public funds, and thus it discusses issues of financial management by church affiliated and non-profit organisations.

Again, I am calling to aid the introductory thoughts of the editors before expressing my second comment. They rightly claim that “the subject belongs to the »jurisdiction« of several disciplines. Weighting among the different disciplines of science was not a simple and obvious task, wherefore the representatives of all disciplines can call the authors' attention to several deficiencies”. The reason behind this is that the world of public finances extends to community economics, the theory of public finances, economic statistics, accounting and several institutional correlations. Of course, it could be mentioned as a criticism that apart from the 402 concepts included the discussion of another ten would have been justified. Or, approaching from the other side, 10 of the 402 concepts could be chosen for being not fully accurately defined. I think that in this case such a criticism could rather be regarded as professional complacency, or improper professional behaviour. Yet, the merit of the book would not at all be lessened by such a criticism. From the professional point of view, the authors and editors can be credited for attempting to create a system in

this multidisciplinary cosmos, and for having laid the foundations of a very serious structure in a novel approach. The book contains sections that have been published in Hungarian for the first time. The novelty of other sections is given by systemisation and occasionally by the practical approach. And it is a real professional “feast” that the description of public finance practices is often enriched by showing international examples.

I wish this outstanding publication earned a place among reference books accessible on a daily basis, since it should be often used when serving the above mentioned public finance culture. Consequently, this Manual can be equally recommended to taxpayers showing interest in the topic, politicians, representatives of the printed and electronic press, as well as participants in educational programmes, researchers and experts working in the midst of public finance practices.

The authors and editorial staff¹ of the book deserve acknowledgement for their outstanding performance, and the publishing house is given credit for including and publishing it in the Meritum series. I am optimistic and hope that the “Comprehensive Manual of Public Finances” will contribute to the development of the public finance culture, and thus will enable public funds to serve the public good. And hopefully, it will do so not only in words.

József Sivák

NOTE

¹ The names of the editors were included in the title. The following is an alphabetical list of further authors: Zsolt Aradi, Ferenc Bathó, Gizella Csonka, Péter Demeter, Sándor Farkas, Judit Fülöp, György Gyórfi, Mrs. László Hamza, Antónia Hüttl, Károly Jókay, László Klinga, Gábor Kozma, Mrs. Kővári Ingrid Benkő, Zoltán Pitti