

# Javne finance

## Public Finances

TINE STANOVNIK

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The new, fifth, edition of the *Public Finances*, a fundamental textbook for all students at schools, where public finance courses are a fundamental part of the curriculum, was issued at the end of 2012 by the Faculty of Economics – University of Ljubljana. Tine Stanovnik has thoroughly upgraded this edition by introducing several alterations in the chapters about personal income tax, value added tax (VAT), expenditure tax, as well as in the segments covering government revenues and expenditure, public deficit, and public debt. The upgrading includes changes at EU level (e.g. VAT), as well as an outline of the importance of statistical information on public debt and deficit (particularly relevant in the current times of financial crisis), based on ESA 95 methodology. Motivated by experience gathered from the lecturing process, several tables were refreshed with the newest data available; for the sake of greater transparency, some complex derivations were transferred from the text to appendixes. The author has added no new chapters, and thus the textbook includes neither environmental taxes nor issues on fiscal decentralisation.

All chapters are structured according to the same logic; they start with the theoretical background of the main topic, followed by its practical applications where applicable. In cases where particular taxes are presented, their relative importance is also outlined. At the end of each chapter, the author offers additional recommended literature. The fil rouge of the textbook is its EU touch and linkage of theoretical concepts to practical use. The many foreign instances shift the context from country-specific (Slovenian) to internationally-significant, making the textbook interesting for any reader familiar enough with the Slovenian language to follow the highly professional and precise language of the author throughout its 229 pages.

The basic structure of the textbook is nevertheless classical, starting with chapter 1 on the public sector scope and its functions. The second chapter covers the allocation of public goods, where beside the taxonomy of public goods, Samuelson's and Lindahl's solutions of public goods provisions are presented. This topic is followed by issues of public choice, where fundamental elements of voting rules are outlined. The chapter concludes with the topic of bureaucracy and the procedure on establishing a government budget. Chapter 3 – introduction to taxation – serves as an entrance point to the core of the textbook, where major taxes are presented. Here the desired characteristics of tax systems are described and basic tax terminology is introduced. In chapter 4, tax shifting and optimal taxes are explained, including for example the Laffer curve and Ramsey's rule. Chapter 5 is dedicated to personal income tax. It starts with Haig-Simons' definition of income and continues with the standard formula of taxable income, as used in practice. The chapter finishes with current global issues on taxation of personal income. Chapter 6 – Taxes on consumption – starts with the VAT, where its base and methods of accounting are presented. An explanation of the EU context for this area of taxation follows, which includes "EU terms", such as taxable person, persons

identified for VAT, place of taxable transactions, etc. Further on, particular tax regimes for specific groups of taxable persons (e.g. farmers) are given and VAT characteristics, such as accrual principle and comparison with retail sale tax, are debated. The VAT part of the chapter ends with a presentation of a European Court of Justice case. Finally, the whole chapter concludes with a short part, dedicated to excise duties. Chapter 7 – indirect taxes and international trade – deals with taxation of international trade, i.e. with the practical application of destination and origin principle. Emphasis is placed on trade within the EU with an explanation of the fundamental (VAT) reverse charge mechanism, as well as of particular regimes that are applicable for example to distance selling and everyday purchase of citizens in other EU countries. Further on, the chapter includes explanation of basic VAT frauds inside the EU (carousel fraud), and an historical overview of the VAT system inside the EU, including the latest proposals for the final VAT regime for trade in the single European market. Chapter 8 is the most theoretical part of the book, observing the expenditure tax, a theoretical concept that has nevertheless influenced contemporary tax systems, including the personal income tax in Croatia during the 1990's. Corporate income tax is the topic of chapter 9. Definition of its base is followed by discussion on arguments for the existence of this tax and the presentation of different corporate income tax systems. The theoretical part of the chapter also includes explanation of tax incidence and a short overview of Harberger model of general equilibrium. The chapter continues with practical issues of the tax, e.g. with its influence on corporations' financial decisions and its tax incentives. Chapter 10 deals with taxation of international capital flows. It starts with the explanation of residence and source principles, followed by explanation of capital import and capital export neutrality (CIN and CEN). Further on, the use of principles is presented with reference to some practical examples. The chapter concludes with the harmonization of indirect taxes inside the EU. The following chapter 11 is dedicated to social security, which represents the major share of public expenditure in most European countries. The chapter starts with the explanation of social security terminology and, after that, the rationale of the public financing of those systems is given. The author explains in detail several types of welfare state and the difference between private and public social insurance. The rest of the chapter introduces basic issues of pension and health systems. The presentation of pension systems starts with an explanation of World Bank pillars and concepts such as pay-as-you-go (PAYG) and notional defined contributions (NDC), followed by a subchapter concerning the rationale behind the crisis of contemporary pension systems. The part dedicated to health systems includes an overview of health financing and concludes with arguments supporting the public financing of health care. Chapter 12 – wealth taxes – gives the reader an insight into different types of wealth taxes and continues with a discussion of their efficiency, fairness, administrative costs, and a short international overview. In chapter 13 – income distribution – the author describes the concept of income redistribution, as well as the basic inequality measures (Gini coefficient and Atkinson index), and debates on the social welfare functions. Chapters 14 and

15 introduce the ESA 95, European System of Accounts, and present topics related to budget deficit and public debt. In these chapters, the fundamentals of ESA 95 are explained, as illustrated by Slovenian data. The part about deficit and debt offers definitions of concepts, as well as a few practical examples. The very last part offers a short overview of public debt in EU countries.

The textbook thus presents a comprehensive reading and an excellent addition to the series of public finance textbooks, used at the Faculty of Economics – University of Ljubljana, written by Tine Stanovnik and previously by his mentor Lado Rupnik.