

PUBLIC FINANCES OF THE LOCAL GOVERNMENT UNITS

Anto Bajo and Dubravka Jurlina Alibegović, 2008, Školska knjiga, The Institute of Economics and The Institute of Public Finance, Zagreb, 299 p.

Review*

Every year we pay more and more money in the budget of local government units (municipalities, towns and counties). For example, in 2002 we paid about 7 billion and in 2008 as much as 14 billion HRK of taxes (or twice as much).¹ Since local government units offer services such as elementary and secondary education, health care, social welfare or public utilities, you are probably interested in the answers to some of the following questions: What are the sources of finance of local government units and what is the money spent on? Did the local government units have enough their own money in the period from 2000 to 2006 or were they additionally helped by the central government? Did they run into debts and in what way? Under what terms? What is the total debt of all local government units? What is the status of public utility companies within the local government units? Are their expenditures a part of expenditures of the local budgets or the public utility companies have their own budgets? How is the budget process in the local government units done? Can you perhaps take part in it at a certain stage? What are the possibilities of financing the local government units from the European Union budget? This book offers the answers to these and many more similar and interesting questions from theory and current practice of the Croatian local government units.

The book -written in Croatian language is divided in eight sections and ends with a reference list, useful websites and an index. Each of eight sections is divided in two separate chapters which discuss theoretical insights on a certain subject as well as practices in Croatia. The book has been written by two young, but already very experienced authors who have excellent theoretical knowledge of public finance and practices in Croatia. **Dubravka Jurlina Alibegović** has been employed as a researcher at The Institute of Economics. **Anto Bajo** has been employed as a researcher at The Institute for Public Finance and as a senior lecturer at The Faculty of Economics and Business Zagreb where he lectures Public Finance, Local Finance, Public Debt Management and Management of Public Sector Finance.

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¹ Source: Ministry of Finance, 2009. Lokalni proračun [online]. Zagreb: Ministarstvo financija. Available from: [<http://www.mfin.hr/hr/lokalni-proracun-2002>]

The book is an integrated whole with all important subjects in relation to the public finance of the local government units. The first section of the book explains which institutions make the *public sector* and which make the Croatian public sector. Special attention is given to the role and position of local government units within the public sector. The second section offers a detailed explanation of the *distribution of public functions* between the central government and the local government units. It explains which level of fiscal authority is theoretically best suited for performing a certain function and which functions the local government units in Croatia carry out. The third section talks about the *sources of finance* of the local government units in theory and the financing sources of the local government units in Croatia. The fourth section discusses the theory of *fiscal equalization* and fiscal equalization in Croatia. It explains fiscal equalization – transfer of funds from the central government to all or some local government units which do not have enough income for financing their expenditures. Advantages and disadvantages of the existing Croatian model of fiscal equalization are analyzed next. The fifth section analyzes *debt and borrowing* of the local government units. It gives answers to the questions about the basic characteristics and purpose of the borrowing of the local government units and about the main instruments and practice of borrowing in developed countries and in Croatia. The sixth section analyzes *other sources of finance* of the local government units. It offers detailed explanation of the ways of financing capital development projects through financial institutions, regional development agencies and different forms of public private partnerships. The seventh section deals with the *budgets* of local government units and the budget process in those units, that is, with the defining the budget concepts and budget beneficiaries as well as the budget structure. Budget accounting, that is, accounting principles applied in budgeting as well as types of financial statements used by the local government units are explained next. The last section discusses *regional policy* of the European Union and problems regarding Croatian regional policy on its way to the European Union.

This is the only book in Croatia at the moment which systematically discusses all currently important subjects in the field of fiscal relations between the central and lower government levels (local government units). The subjects are discussed in detail and argued with many interesting practical examples and calculations. The book offers genuinely much information which, although available to the public, is difficult to find or obtain from the institutions involved. This is probably one of the most useful things the book has to offer. It is not intended for quick reading as it fully discusses a great deal of subjects. Therefore you might have to read some parts even twice. As a textbook it is first of all intended for the students of undergraduate, graduate and postgraduate courses at faculties of economics and law, but it will be very useful to researchers who are active in the subject as well. It will certainly be interesting to the employees in local government units departments, employees in central government bodies and all other citizens who are interested in theoretical insights and practical solutions regarding public finance of local government units.

Mihaela Bronić
Institute of public finance