

The Public Finances, the Utility of the Taxpayer and the Public Services – towards a New Connecting Model?

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Marcel Ioan Boloş

Ph.D. Lecturer
Oradea University

Motto:

“Do not follow beaten paths, make up your own paths and leave a trace.”

Unknown author

Abstract. *Public finances from everywhere have followed along the centuries, as it was natural, some periods when they had to accommodate to the needs resulted from the economic and social life. Their mission was not at all a simple one. To conceive the taxes and rates (dues) system, to ensure a performing and an efficient budgetary process, to finance some categories of public expenses, to ensure a fiscal decentralization which would not lead to severe interferences within the public field are only a few of the problems of major importance that they had to deal with. And also the challenges that have come upon public finances are not to be neglected. We may bring to mind here the opposed interests of the taxpayer, interested in obtaining a higher level of goods and public services and of the public authorities who, trying to satisfy the needs of taxpayers, have obtained almost all the time a quite high level of taxes and rates (dues). The purpose of this paper is, though, the setting up of these apparently opposed interests in an equation. We have also tried to “measure” the dependence degree of the utility felt by the taxpayer, as a consequence of the growth with one unit of the quantity of public services performed by the authorities.*

Key words: public expenditures; taxpayers; ability to pay; public finances; connecting model; financial resources; public services; marginal utility.

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JEL Classification: H21, H41

1.1. Introduction: short foray in the reform of public finances

The archeology of the transition of public finances is marked in this period of transition by four important reforming elements, placed at the level of local communities⁽¹⁾, such as:

- *the right of local governments to collect own resources* caused the setting up of specialized units (departments) to collect local taxes and dues, at the level of local authorities;
- *the right of local authorities to dispose of own resources*, being widely spread along Continental Europe, is expressed most of the times, through the property tax, as a tax assigned and collected in the limits of the fiscal autonomy, by local communities;
- *the right to collect apportioned taxes⁽²⁾* has revolutionized the European fiscal strategies, but

has also consolidated the financial capacity of local governments. Their procedure is simple and consists of applying some *deducted quotes* to the taxes collected at the level of central budgets. There are many examples, but the most common one is the income tax, to this being applied several deducted quotes to establish the income of the central budget, of the federal budget (after case) or of the local budget.

- *the right of local governments to raise loans*⁽³⁾, opened the way to the lasting development, most of the local communities using the borrowed resources to accomplish public investments.

The theory of the 4D was “imported” from the Book of Local Autonomy, adopted at Strasbourg in 1985, entering this way in the architecture of public finances, even from the end of the twentieth century.

Not even the mechanism of public finances could be insensitive to the changes that took place. Taxation has reborn as the “*Phoenix*” bird from its own dust, striking the resistance of the taxpayer. Work tax, consumption tax and capital tax were rethought over. The pretty high taxes associated to the lessened legitimacy for collecting generated accentuated tax avoidance in the transitional Europe.

The mechanism of public finances has gone through several changes generated by the reinforcement of the budget at national level, regardless of its nature (central, local budget of the social insurances and of the social health insurances) in the form of the general consolidated budget, by the financial flows carried on between local budgets and central budgets as a consequence of the decentralization of public utilities, but also by the diversity of public utilities carried on under economical performance and drew up on the basis of programs, especially by local governments.

Decentralization took place according to different procedures in case of some public utilities such as high school education, health, social protection and assistance, but also in case of public utility services (supplying cities with thermal energy, with water and sewerage, but also public transport).

The mechanisms of decentralizing public services⁽⁴⁾ were very different, simple procedures being used, but with strong implications, like

- *public utilities associated to high school education* have transferred their material base and the financing of expenditures to local budgets, while the processing of the strategies for human resources has remained the obligation of central authorities;
- *health public utilities* followed a more complicated and more delicate decentralization process, at the same time with the founding of the Social Health Insurance Desks. The material base (land and buildings) was transferred to local governments,

while the financing of the operating expenditures has remained the obligation of the social insurances budget. State budget, together with local budgets, was to finance the programs for modernizing buildings which, most of them, had an advanced technical usage degree.

- *services of social protection and assistance*, although take different forms, from social support (the minimum guaranteed income) to state allowance for children or birth allowance, have been transferred, as a task for local governments. At central level, it was decided that, together with local governments, they had to ensure the financing of social politics (for example, subsidizing the heating of the households is done like this: 55% from the local budget and 45% from the state budget).
- *services of public utility* covered a pretty simple route of decentralization, the service operators being organized in companies, passed from the orders of central governments to the orders of local governments.

The performance of the mechanism of public finances, according to the new transitional conditions, is far from respecting the standardized patterns specific for planned economics. Vulnerability and exposure to risks are somehow more accentuated. And all this because bankruptcies, founding or abolition of companies, the dynamics of companies, ultimately bring about the periodicity of added value brought out in the real economy, on which depends the volume of taxes and dues collected from the budgets.

Empirically, the added value represents the element that ensures “the necessary blood” for the well functioning of any economy.

Taxes and dues follow the same route as the planned economy, supplying, through depersonalization, the ramified structure of chief accountants, secondary, and tertiary accountants (managers of financial resources, from the public sector) asked to supply the best services for civil society. If the route of the financial resources remains invariable, there took place multiple changes such as: the autonomy of local communities, restructured taxation, and institutional reforms, financial resources management applied in performing conditions and based on programs, but also the complexity and diversity of public utilities performed by citizens.

Reform elements brought about a system of public finances whose main actors: taxpayers, (local and central) public authorities, but also the consumers of public utilities, followed rules and procedures generated by specialists inside scientific labs or inside lecture rooms.

Decentralization of public utilities generated serious problems for specialists in public finances, because, due to

the lack of adequate management, a similar transfer of resources in Continental Europe did not always accompany the transfer of public utilities from the central level to the local level.

The immediate consequence was the emergence of budget deficits, especially at the level of local governments, although the principle of budgetary balance required a balance, at least theoretically, between public incomes and public expenditures. Budget deficit, masked by the balance principle, was covered most of the times by loans, the budgetary pressures taking place simultaneously both on central budget, and on local budgets. It was a lesson of “academic class” for local governments, asked to apply a performing management of the fading between financial resources that include own resources, samplings from the state budget and/or borrowed funds.

There has been developed a whole methodology for measuring the lacks of balance⁵ brought about by responsibilities ahead the transfer of resources. Hunter’s coefficient, underlain as an indicator for measuring horizontal lacks of balance (between local communities), estimated

according to the formula $C_H = 1 - \frac{\text{Samplings local budget}}{\text{Total local public expenses}}$

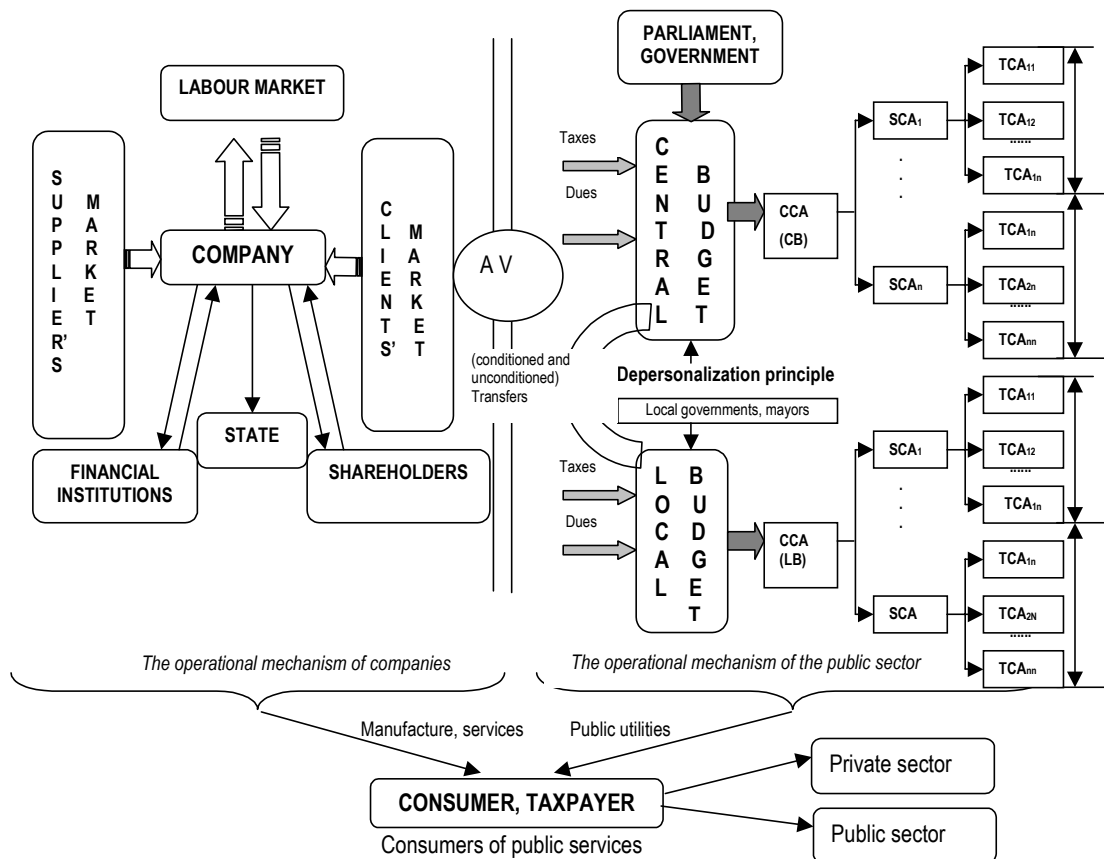
that would reflect a reality, contrary to the principles announced in the European Charter of Local Autonomy: a more and more accentuated dependence of the local governments on central governments.

Also, the indicator global income tax, conceived to measure vertical lacks of balance (between local and central levels of authority), calculated after the formula

$I_{GIT} = \frac{\text{transferred GIT}}{\text{collected GIT}}$, indicates the position of resources

donor governments, but also the position of the ones which receive resources.

The intended goal for measuring vertical lacks of balance was to offer a general view of the redistribution politics for public resources between different local communities. All those who receive resources will be happy most of the times, while those who donate resources will find themselves in a conflict. It is a resource equalizing policy (between local governments) justified by the minimum level of public utilities that have to be carried on for every citizen.



Legend:

CCA – credit chief accountant (CB - central budget, LB – local budget);

SCA – secondary credit accountant;

TCA – tertiary credit accountant;

D_{1c}, \dots, D_{nc} and D_{1l}, \dots, D_{nl} – domains of public services financed from the local and central budget.

Figure 1. The operational mechanism of public and private economies in ex-communist countries

The task of public finances was never and will never be easy. Modernizing meant continuous fitting to the systemic mutations that took place. The resulted lack of balance had to be corrected using different innovative formulas. Hungary, Poland, Czech Republic, but also Romania had daring experiences. The equalizing criteria didn't try to cover budgetary deficits to avoid the loss of resources or the delay of collecting own resources at the level of local communities. These ones were based on real needs which the members of the civil society had for public utilities. There are many examples of equalization criteria, such as: territorial surface, financial capacity per inhabitant, the number of inhabitants from a region, etc.

1.2. The taxpayer utility connection model to the consumption of resources to ensure public services

The opposite interests of the taxpayer (to benefit of a higher public service, in terms of quality and promptness) and of the public authorities (interested in collecting a much higher level of taxes and rates (dues) as an indirect price for the performed public services) is a problem which has to be solved by public finance specialists.

What can be done in this case? Which will be the connection to be generated between the interests of the taxpayers and the ones of the public authorities? These are questions that we will try to answer in the next paragraphs.

The equation that governs the complex and delicate mechanism of public finances, but which also represents the first step towards solving the problem, can be formulated like this⁽⁶⁾:

$$R_f = S_p; S_p = A_p + Sp_c$$

$$R_f = A_p + S_{p_i} \quad (1)$$

where:

R_f – public financial resources (resulted from taxes, dues);

S_p – basic public service which public authority is forced to carry on (according to the settlements);

A_p – public assets (land, buildings, equipments, etc.);

S_{p_i} – interfacing public utilities necessary to carry on the basic public utilities.

In the category of interfacing public utilities are included all those collateral services that have to be carried on so that the basic public utilities can take place (in the favor of the citizen), including here transport, storage, assembling and other such services.

But financial resources also depend on the availability to pay of the taxpayer, whose mathematical formula, at a first stage, looks like a simple one:

$$A_{pt} = I_t - E_{t,c} \quad (2)$$

where:

A_{pt} – availability to pay of the taxpayer;

I_t – total income, regardless of the origin source;

$E_{t,d}$ – taxes and dues expenditures owed to the general budget.

We can see two situations here (resulted from the evolution of I_t and $E_{t,c}$):

1) When total incomes of the taxpayer tend to grow, the availability to pay off the tax and contributions payer records the same trend, the formulated fiscal strategies have to take into account the evolution of the economical cycles, but also the fiscal pressure exercised on the budget of the taxpayer.

2) When total incomes of the taxpayer tend to go down, the vulnerability of achieving planned budgetary budgets is more accentuated and this situation can lead to the risk of incapacity to pay public utilities. In such situations, it is necessary to identify immediate solutions to cover treasury deficits, taking into account loans (as solutions on short term), promoting some fiscal politics on long term that might lead, especially by (public and private) investments, to the growth of the taxable base.

Interpretations are quite simple and refer to the availability to pay of the taxpayer, although public finances dedicate hundreds of pages to the debate of the concept “ability to pay” of the taxpayer.

We may note that, at a first analysis, the equation of the availability to pay generally treats total incomes, with different structures, the same way the taxpayer is either a natural person or a legal person, as well as taxes and contribution expenditures, without being grouped according to the rule of independent budget, in general expenditures of the state (central) budget and of local budgets. Considering the formulated observations above and noting with $E_{t,d,cb}$ the expenditures with taxes and dues owed to the central budget, and with $E_{t,d,lb}$ the

expenditures and contributions which represent an obligation of the taxpayer to the central budget, the availability to pay of the taxpayer A_{pt} can be rewritten:

$$A_{pt} = I_t - (E_{t,d,lb} + E_{t,d,cb}) \quad (3)$$

But the availability to pay depends, in these conditions, on three variables: I_t – total incomes, $E_{t,d,cb}$ – expenditures with the taxes and dues of the central budget and $E_{t,d,lb}$ – expenditures with taxes and dues of the local budget.

Expenditures with taxes and dues are at the same time incomes for central budgets (I_{cb}) or incomes for local budgets (I_{lb}), according to the rule, which assumes that the expenditures with the taxpayers' taxes and dues are also income for the budget that collects them, so:

$$E_{t,d,lb} = I_{lb} \text{ and } E_{t,d,cb} = I_{cb} \quad (4)$$

The equation of the availability to pay becomes:

$$A_{pt} = I_t - (I_{cb} + I_{lb}) \quad (5)$$

The availability to pay according to equation (5) will be reformulated in an aggregated form at the level of the whole mass of taxpayers, as follows:

$$A_{pt} = \sum_{i=1}^n I_{ti} - \sum_{i=1}^n (I_{cb_i} + I_{lb_i}) \quad (6)$$

where:

I_{ti} , I_{cb_i} , I_{lb_i} have the same meaning, only that they are offered at the aggregated level of taxpayers.

At the same time, each taxpayer can also be a potential beneficiary of public utilities who requires that the utility for public utilities which he benefited from to be maximum, so that the public authorities to solve a situation like this:

$$\max(U_{PS_1}, U_{PS_2}, \dots, U_{PS_n})$$

where:

$U_{PS_1} \dots U_{PS_n}$ represent the utility felt by each taxpayer for the performed public utilities PS_1, PS_2, \dots, PS_n .

So, the individual utility of each taxpayer is a function which depends on the quantity of performed public goods and utilities (q_{ij}) and the taxpayer's available resources (R_e) to perform the quantity of planned public utilities (according to the consented budget), as follows:

$$U_i = f(q_{ij}, R_e)$$

or in its aggregated form:

$$U_a = \sum_{i,j=1}^n a_i(q_{ij}, R_e),$$

but $R_e = A_{pt}$, and a_i – the importance rate which every taxpayer gives to the public goods and utilities performed by public authorities according to their needs, and by replacement, we will obtain:

$$U_a = \sum_{j=1}^n a_{ji} [q_{ij}, \sum_{i=1}^n I_{ti} - \sum_{i=1}^n (I_{lb_i} + I_{cb_i})] \quad (7)$$

The constraints for maximizing the aggregate utility expressed in equation (7) are of budgetary nature and are described in the following equations:

- for the local budget: $C_{lb} = I_{lb} - E_{lb}(q_{ij})$
where: C_{lb} – constraints for local budget
- for the central budget: $C_{cb} = I_{cb} - E_{cb}(q_{ij})$
 C_{cb} – constraints for central budget

Taking into account that each budgetary constraint depends on financial resources (I_{cb} and I_{lb}), but also on the expenses generated by the performed quantity (q_{ij}) of public goods (i) and utilities (j) and, in this context, the major goal is optimizing the taxpayer's aggregated utility function, in the Lagrangean⁽⁷⁾ of this problem shall be described as follows:

$$L = a_i \left[\sum_{i=1}^n I_{ti} - \sum_{i=1}^n (I_{lb_i} + I_{cb_i}) \right] - \lambda_1 \left[\sum_{i=1}^n I_{lb_i} - E_{lb}(q_{ij}) \right] - \lambda_2 \left[\sum_{i=1}^n I_{cb_i} - \sum_{i,j=1}^n E_{cb}(q_{ij}) \right]$$

The goals followed by each public authority (to optimize) will be to maximize the quantity of the acquired public goods and utilities, but also of the public which that could be attracted to finance them, regardless the type of budget they refer to. The conditions of maximizing the utility felt by the taxpayer can be shaped based upon the following optimal conditions:

$$\frac{\partial L}{\partial q_{ij}} = 0 \quad \frac{\partial L}{\partial I_{lb}} = 0 \quad \frac{\partial L}{\partial I_{cb}} = 0$$

Optimum is obtained in the points in which the first order fluxion is cancelled, depending on q_{ij} , I_{lb} , I_{cb} .

In this context, we shall obtain:

$$\left\{ \begin{array}{l} \frac{\partial L}{\partial q_{ij}} = a_i \times \frac{\partial U_i}{\partial q_{ij}} + \lambda_1 \times \frac{\partial E_{lb}(q_{ij})}{\partial q_{ij}} + \lambda_2 \times \frac{\partial E_{cb}(q_{ij})}{\partial q_{ij}} \\ \text{(equation 1)} \end{array} \right.$$

$$\left\{ \begin{array}{l} \frac{\partial L}{\partial I_{lb}} = -a_i \times \frac{\partial U_i}{\partial I_{lb}} - \lambda_1 \\ \text{(equation 2)} \end{array} \right.$$

$$\left\{ \begin{array}{l} \frac{\partial L}{\partial I_{cb}} = -a_i \times \frac{\partial U_i}{\partial I_{cb}} - \lambda_2 \\ \text{(equation 3)} \end{array} \right.$$

From the above equation system, we shall obtain:

$$\lambda_1 = -a_i \times \frac{\partial U_i}{\partial I_{lb}}$$

and

$$\lambda_2 = -a_i \times \frac{\partial U_i}{\partial I_{cb}}$$

Replacing λ_1 and λ_2 with the values obtained in the first equation of the system, we will obtain:

$$\begin{aligned} & a_i \times \frac{\partial U_i}{\partial q_{ij}} - a_i \times \frac{\partial U_i}{\partial I_{lb}} \times \frac{\partial E_{lb}(q_{ij})}{\partial q_{ij}} - \\ & - a_i \times \frac{\partial U_i}{\partial I_{cb}} \times \frac{\partial E_{cb}(q_{ij})}{\partial q_{ij}} = 0 \quad | a_i \end{aligned}$$

and we obtain:

$$\frac{\partial U_i}{\partial q_{ij}} - \frac{\partial U_i}{\partial I_{lb}} \times \frac{\partial E_{lb}(q_{ij})}{\partial q_{ij}} - \frac{\partial U_i}{\partial I_{cb}} \times \frac{\partial E_{cb}(q_{ij})}{\partial q_{ij}} = 0 \quad (8)$$

It would be interesting for every public authority to study the development of the marginal utility function when we get an additional unit of public goods or utilities (q_{ij}), using at the same time an additional unit of public resources (I_{lb} , I_{cb}), according to the equation (9):

$$\boxed{U_m(q_{ij}) = U_m(I_{lb_t}) \times C_{m(lb)}(q_{ij}) + U_m(I_{cb_t}) \times C_{m(cb)}(q_{ij})} \quad (9)$$

Relation (9)⁸ is valid when i and j are from the same class, meaning that the performed public goods and utilities are the same (there is no regime of apportioning public services), both for central authorities and local authorities.

We recommend using the equation (9) to assess the case about marginal utility $U_m(q_{ij})$ at the level of the consolidated general budget on the whole, calculated as the budget made up by totting the constituent budgets, regardless of the fact that it is the central budget, local budget or the budget of social insurances, accepting the hypothesis that $i, j \in A_c \cup A_l$ (A_c – central authority, A_l – local authority).

If goods (i) and utilities (j) differ from one another, both as content and quantity, $i_1, j_1 \in A_c$ și $i_2, j_2 \in A_l$, using the same reasoning, the result will be:

$$\boxed{Um_1(q_{ij}) = Um_1(I_{lb_t}) \times Cm_1(q_{ij})} \quad (10)$$

$$\boxed{Um_2(q_{ij}) = Um_2(I_{cb_t}) \times Cm_2(q_{ij})} \quad (11)$$

where:

A_c – central public authority;

A_l – local public authority.

To simplify calculations, we shall define

$$U_m(I_{lb_t}) = \frac{\Delta I_{lb}}{I_{lb_0}} \quad \text{and} \quad C_m(q_{ij}) = \frac{\Delta C_{lb}}{C_{lb_0}},$$

$$\text{and} \quad Um(I_{cb_t}) = \frac{\Delta I_{cb}}{I_{cb_0}} \quad \text{și} \quad C_m(q_{ij}) = \frac{\Delta C_{cb}}{C_{cb_0}}$$

where:

$\left. \begin{array}{l} \Delta I_{lb} = I_{lb_t} - I_{lb_0} \\ \Delta I_{cb} = I_{cb_t} - I_{cb_0} \end{array} \right\}$ represent absolute exceptions of the incomes of the local and central budget, obtained at the level of two consecutive moments t_0 and t_1 .

$\left. \begin{array}{l} \Delta C_{lb} = C_{lb_t} - C_{lb_0} \\ \Delta C_{cb} = C_{cb_t} - C_{cb_0} \end{array} \right\}$ represent absolute exceptions of the expenditures of the local and central budget, performed between two consecutive moments t_0 and t_1 .

$I_{lb_0}, C_{lb_0}, I_{cb_0}$ and C_{cb_0} incomes, expenditures of the central and local budget at moment t_0 ;

$I_{lb_1}, C_{lb_1}, I_{cb_1}$ and C_{cb_1} incomes, expenditures of the central and local budget at moment t_1 .

Taking into consideration the above observations, rewriting relation number (9) becomes necessary to make the $U_m(q_{ij})$ calculus as follows :

$$U_m(q_{ij}) = \frac{\Delta I_{lb}}{I_{lb_0}} \times \frac{\Delta C_{lb}}{C_{lb_0}} + \frac{\Delta I_{cb}}{I_{cb_0}} \times \frac{\Delta E_{cb}}{E_{cb_0}} \quad (12)$$

Both performed researches and the usage of relation (12) for annual or monthly data series allowed characterizing the utility function $U_m(q_{ij})$ like this:

a) regardless of the trend of income fiscal policies or of the redistribution income budgetary policies, the marginal utility function represents an average of the trend of these policy categories which enables us to say that when taxation pressures taxpayers and faces their “opposition reactions”, the effect might be diminished by rising the quantity and quality of the performed public services;

b) the recorded values of the marginal utility function are constantly under the values of $U_m(I_{lb_i})$, $U_m(I_{cb_i})$, $Cm_{(lb)}(q_{ij}, p_{ij})$ and $Cm_{(cb)}(q_{ij})$, so we can say that the taxpayer’s contentedness level will be most of the times inferior to the income, expenditures policies, situation explained by the fact that a taxpayer is not always a direct consumer of public goods and services, too. The most frequent example is that of education where, although the taxpayer backs up the financing of public services by taxes and dues, the direct consumer of the educational public service could be the child of the taxpayer. This enables us to say that the taxpayer does not always directly feel the utility of the service, but through intermediaries, so that the value of the utility function will be under the values recorded for marginal cost or marginal incomes;

c) if the recorded values of marginal incomes or marginal costs tend to grow or tend to go down, the marginal utility has the same trend, but, as we already said, at a lower level. There are different explanations, not always the taxpayer is also the (direct or indirect) consumer of public services, and the phenomenon of opposing to taxpayer’s fiscal policies can be lessened by fair a distribution of resources towards the quantitative and qualitative growth of public services of the civil society.

1.3. Conclusions

The calculus for the value of marginal utility, according to the conditions mentioned above, allows constant adjusting of the two types of resource policies and their destinations. When the values of $U_m(I_{lb_i})$ and $U_m(I_{cb_i})$ are high, the taxpayer’s capacity to pay is put into danger, and an alternative to repressive taxation might be the usage of a fosterage policy for rising the value of the taxable base.

If $Cm_{(lb)}(q_{ij})$ and $Cm_{(cb)}(q_{ij})$ have a high value, the cause might be quantitative growth (q_{ij}) of the ensured public goods and services. In such cases (of quantitative growth of the ensured public goods and services) there will be also necessary to rise the consumption of financial resources $U_m(I_{lb_i})$ and $U_m(I_{cb_i})$.

The correlation between the trends of $U_m(I_{lb_i})$ and $U_m(I_{cb_i})$, and also the ones of $Cm_{(lb)}(q_{ij})$ and $Cm_{(cb)}(q_{ij})$ have based upon research, the following possible reports:

1) When $U_m(I_{lb_i})$ and $U_m(I_{cb_i})$ tend to go up, and $Cm_{(lb)}(q_{ij})$ and $Cm_{(cb)}(q_{ij})$ follow the same trend, we can assert that marginal utility will have the same trend, but at an inferior level. This situation is presented in the next figure:

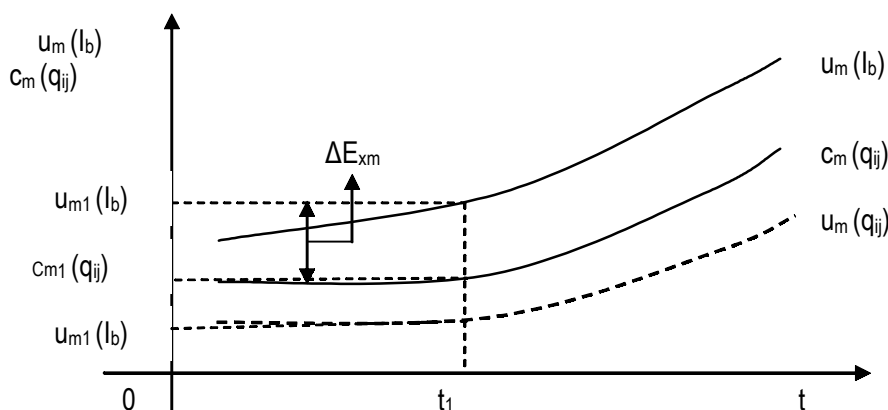


Figure 2. Evolutions of $U_m(I_b)$, $Cm(q_{ij}, p_{ij})$ in period t , according to the trends mentioned in the case study number one

2) When $U_m(I_{lb})$ and $U_m(I_{cbl})$ tend to go down, and $C_m(lb)(q_{ij})$ and $C_m(cb)(q_{ij})$ tend to go up, $U_m(q_{ij})$ follows the trend of the marginal cost, then, at a certain moment, begins to go down, because the budgetary deficits that

back up $C_m(lb)(q_{ij})$ and $C_m(cb)(q_{ij})$ will generate interest costs because, in ex-communist countries, these are mainly backed up by loans. Interest costs will put pressure upon $U_m(I_{lb})$ and $U_m(I_{cbl})$. This will be shown as follows:

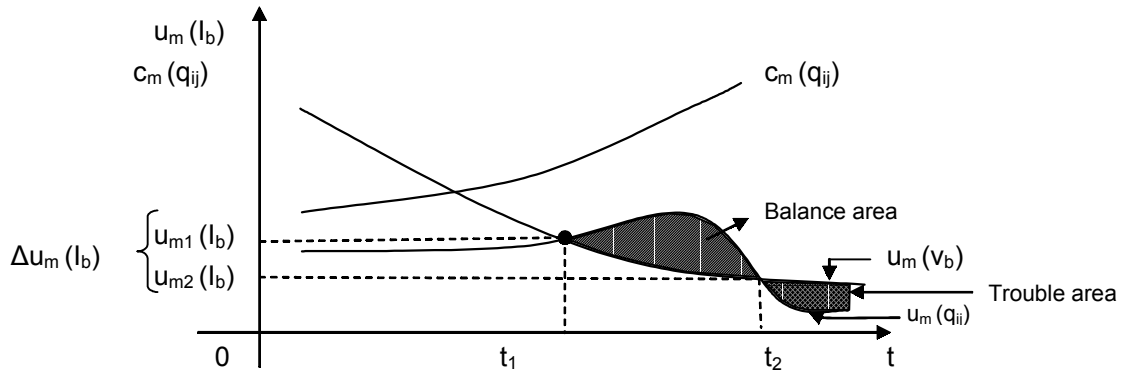


Figure 3. Evolutions of $U_m(I_b)$, $C_m(q_{ij})$ and $U_m(q_{ij})$ in period t , according to the trends mentioned in the study case number 2

The balance areas allow maintaining the trends for the politics applied to the functions $C_m(q_{ij})$ and $U_m(q_{ij})$, but the transition to trouble areas will offer a good chance for public authorities to correct the politics applied for $C_m(q_{ij})$ and $U_m(q_{ij})$. The effects of the corrected politics can be measured only after long periods of time, and budget deficits, maintained from loans, will need own resources, or other loans, to maintain their repayment.

Most of the times, the solution adopted in the ex-communist space was that of refinancing public debts (through loans).

3) When $U_m(I_{lb})$ and $U_m(I_{cbl})$ tend to grow, and $C_m(lb)(q_{ij})$ and $C_m(cb)(q_{ij})$ go down, the marginal utility function follows the same route as in case study number 2, the explanation being that treasury surplus or repressive taxation are not satisfactory reasons for the taxpayers. This situation is presented in the following chart:

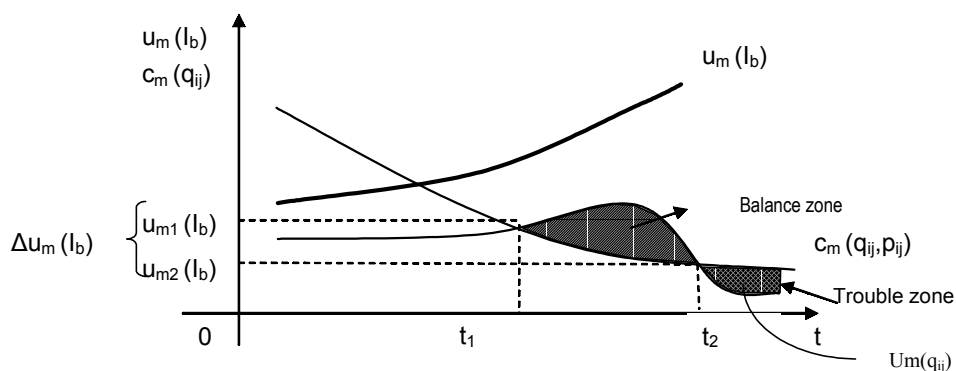


Figure 4. Evolutions of $U_m(I_b)$, $C_m(q_{ij})$ and $U_m(q_{ij})$ in period t , according to the trends mentioned in study case number 3

The system of public finances has from now on a new mission: a challenging, modernizing, but also innovative one, that of being a partner of the public authorities, to ensure a performing management of financial resources.

So, public finances cease to account the collection of resources or payments associated to expenditures, offering information for statistics, which can clearly show budgetary execution. Taxation becomes friendlier, being

also a main component of the developing policies. The budget becomes an authentic instrument of the financial management.

Each petal of this *iris* opens one by one to ensure “services” for the taxpayer, public authorities, general credit accountants, but also for the consumers of public services.

To what point will public finances modernize? Will they be a good partner for the authorities asked to find solutions to the antagonist interests of both the taxpayer and the authorities? How will finances measure the performance of using financial resources in the public sector? All these are questions that have to be answered as soon as possible by specialists in public finances.

Notes

- ⁽¹⁾ Reform elements are taken from European Book of Local Autonomy, which establishes the theory of the 4 D, as a step towards the conceptualization of a new specialization of public finances concerning local public finances.
- ⁽²⁾ In Romania, shared taxes as deducted shares from some the incomes of the state budget are introduced in the Law of local public finances beginning with 1998. The most frequently used form for shared taxes is that of the income tax.
- ⁽³⁾ The contraction of loans by the local public authorities has founded the bases of the local public debt, which regularly is established in the limit of a percentage from the own incomes that local communities collect.
- ⁽⁴⁾ In most of the cases there has been adopted a decentralization law which has established the way of allocation of the public services between the central and local authority levels; but the problem still remains, consisting in the identification of a proper management solution to organize and to make function the public services.
- ⁽⁵⁾ The theory of financial unbalance has developed and has underlined a series of indicators such Hutter’s coefficient, because later on on, their base measures, could be established for a proper balance of the budgets from regions and local communities.
- ⁽⁶⁾ The equality equation between the resources of public finances and those of public services, and although the formula for figuring out the payment modality are underlying on reasoning coming from the behavior of authorities when they have to ensure public services and also of the taxpayer as a tax and dues payer to the budget.
- ⁽⁷⁾ The Langrangian of the problem has been formulated taking count of the budgetary conditionings that have in view the financial resource level, resulted from tax and dues and expenses determined by the quantity of public services performed at the level of the prices for performed services.
- ⁽⁸⁾ Relation number 9 describes the marginal utility of the performed public services felt by the taxpayer when a supplementary unit of performed public services is obtained, expressed in quantitative form.

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