What is the difference between using SYSTEM and PUBLIC in declaration of DOCTYPE?

They are the two types of the DTD , SYSTEM declaration means that the DTD file is private , the PUBLIC declaration means the file is public.

PUBLIC entities are those entities assumed to be known to many systems so that a full declaration need not be transmitted. This format is generally used to declare publicly available DTDs, standard character sets, and commonly used notations such as TIFF.

SYSTEM entities are not assumed to be known to a receiving system. Thus, such entities require a full declaration of system identification (path, etc.) when they are exchanged.