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COMPARATIVE ANALYSIS OF THE WELFARE AND THE MINIMAL STATE FROM THE ASPECT OF THE FINANCIAL ACTIVITY OF THE STATE

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COMPARATIVE ANALYSIS OF THE WELFARE AND THE MINIMAL STATE FROM THE ASPECT OF THE FINANCIAL ACTIVITY OF THE STATE

Ana Naumoska*

Abstract

The question of the role of the state and the (un)justification of state interventionism in the citizens' social standard is still subject to academic debates. This issue owes its actuality to the political, but also the ideological currents in the political concepts represented by the states. Depending on whether it is based on strict individualism or the collectivist character of the state, modern states can be distinguished as minimal states and states of prosperity (welfare states). Both concepts impact all spheres of human existence, society, politics, law and economy.

This paper addresses the ongoing academic debate concerning the state's role in shaping its citizens' social standards, juxtaposing two prominent state models: the welfare state and the minimal state. The study offers a novel comparative analysis of these models, focusing on their financial activities, including public revenue collection and expenditure. While existing literature highlights their ideological underpinnings, this paper makes a unique contribution by analysing the practical fiscal implications of these models through case studies of Sweden and Chile, representing welfare and minimal states, respectively. It explores the correlation between a state's fiscal strategy and its social outcomes, emphasising the varying degrees of public investment in welfare programs and their impact on socio-economic equity. By bridging theoretical constructs and fiscal realities, this paper sheds light on the broader policy implications for states navigating between these paradigms. This work is particularly useful for policymakers and academics examining the fiscal dimensions of state intervention and their role in promoting social welfare or economic freedom.

Keywords: *minimal state, welfare state, financial activity of the state, public revenues and public expenditures.*

I

Introduction

States are complex machines that perform a large number of different functions. The type and scope of state functions depend on many characteristics of the state, its structure, ideological background, and the strategic determination concerning its goals. One of the traditional systems of classification of states is between minimal states and welfare states. Such polarisation is based on the degree of state participation in the private sphere of citizens, specifically in the realm of social security and welfare.

The states that exist today on the international political scene can be systematised between these two forms, that is, as minimal and welfare states. However, within this spectrum, many states cannot be classified explicitly in either the first or the second category, because their approach to the issue of the general well-being of citizens is based on characteristics of both types.

State social transfers represent a specific category of state public expenditures that are specifically aimed at achieving the state's social goals and functions. Thus, a minimal state generally has lower social transfers and financial activity, unlike a welfare state with higher social transfers and extensive economic activity.

This research paper is dedicated to a comparative view of minimal and welfare states from the perspective of their financial activity and the type and volume of income and expenditure generated in the process.

II

Defining the minimal and the welfare state

One of the classic oppositions regarding the state's role in the private sphere of its citizens' lives is the opposition between the minimal state and the welfare state.

The welfare state is a concept of government organisation in which the state plays a key role in protecting and promoting its citizens' economic and social well-being. It is based on equality of opportunity, equitable distribution of wealth, and public responsibility for providing a minimum standard of living for those who cannot do so themselves. [1]In simple terms, the foundation of the welfare state is that its citizens' well-being is the state's responsibility.

The state's commitment to ensuring the well-being of its citizens, in itself entails a necessary large and cumbersome state apparatus, this implies a large number of specialized bodies, agencies and institutions that will operate in various aspects of social life, and whose goal will be to work towards increasing and equalizing the standard of citizens, providing quality public goods and services such as health and

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[1] The Columbia Encyclopedia 5 (1993).

education, etc. In parallel with the bulkiness of the state apparatus, the welfare state is also characterised by a higher degree of state intervention in the operation of the market, an economy that borders on a thoroughly planned economy (but still capitalist). The functioning of such a state undoubtedly represents a real logistical challenge that entails extensive financial activity of the state: in terms of collecting public revenues through taxation, and in terms of creating public expenditures and budget spending, to ensure the real functioning of public services.

The welfare state, viewed in this way, largely resembles the creations of great socialist states, from which it draws its basic roots, such as equalisation of standards, state intervention, and state control over the public sector. Therefore, especially in the Balkans, the thesis is often applied that the welfare state is a Yugoslav invention that, in its proper form, functioned only on the socialist ideological basis, and that what began to be called the welfare state after the 90s is the result of capitalist admiration for socialism.[2]

As a complete opposite of the welfare state, the classical-liberal ideal of the minimal state is set. On the other hand, it is a form of organising public power that is characterised by reducing the government and public bodies to a minimal level, where the fundamental role of the state is only to maintain the system that will be left entirely to the individual tendencies of each citizen. In the political sphere, this will mean non-interference of the state in terms of the rights and freedoms of citizens; and in the financial and economic sphere: a state of completely free and competitive market and market economy, privatization of all spheres of state activity that go beyond the purely functionalist framework of government activity and minimal fiscal activities. The budget of the minimal state is minimal, and thus the financial activities of the state are reduced only to providing public revenues necessary for the functioning of state bodies. Supporters of the minimal state perceive taxation and more complex fiscal activities as a violation of individualism and freedom, the highest ideals.

Hence, the key concepts on which the minimal state relies are: the absolute freedom of citizens, the market and competitive economy, the absence of state intervention, and the minimised financial activity of the state.[3] What is interesting about the minimal state is that it is a subject of study by political scientists (from the point of view of its operation in the political system) but also by economists (for the study of its financial and economic position). It is often attributed as a 'night watchman' state precisely because of the passivity of its existence. It has no active role – it only keeps

[2] Muratović Rasim, Moć i nemoć države blagostanja, Institut za istraživanje zločina protiv čovječnosti i međunarodnog prava, 223-231 (2008).
[3] Lee Dwight R , *The Impossibility of a Desirable Minimal State*, PC 61, 227 (1989)

the system from collapsing and ceasing to function, and will act only in times of crisis. The rest of its operation is based entirely on the laissez-faire principle in an expanded form, encompassing all spheres of statehood.

The minimal state and the welfare state have substantial differences in terms of the financial activity of the state, especially in terms of public revenues and expenditures, which will be discussed below. Although both concepts: the minimal state and the welfare state are relatively labile and flexible, so a real challenge is to classify modern states into these two categories, in the further elaboration of the paper, Sweden and Chile will be analyzed, *Sweden as a representative of the welfare state, while Chile is a representative of the minimal state.*

III

Financial Activities: Welfare State vs. Minimal State

The financial activity of the state encompasses all actions and activities aimed at managing money in which the state is a subject, and which encompass the collection, distribution and spending of funds necessary for the achievement of generally beneficial public goals. [4]By performing financial activity, the state provides funds to finance the state administration, the military, the judiciary, healthcare, education, science, and culture, providing social security for citizens. The financial activity of the state is directly related to the concept *of the budget*, which is the basic financial instrument of the state. It is an institutionalised instrument for financing the state, through which public expenditures are carried out in modern economic systems. The budget is often presented as *a summary comparison* of public revenues and public spending.[5]

When we talk about the financial activity of the minimal state and that of the welfare state, there are many differences in how it is carried out.[6]

The welfare state has extensive financial activities. First, it represents the collection of funds that will be used for public works. This type of activities includes: the collection of taxes as a direct and most important form of public revenue, then the collection of fees, customs duties, contributions and fees; in addition to public or fiscal revenues, the financing of state activities can also occur through the so-called public loans and international financial lending. After the state provides the necessary funds, its distribution activities follow. This is a complex process in which

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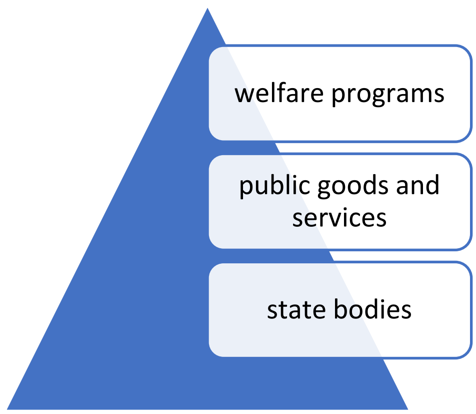
[4] Jovan Lovčeviħ, *Institution of Public Finance*, OGFRY, 11 (1997)

[5]Vesna Pendovska et al., Financial Law, 140 (2010)

[6] Christian Breunig et al, *Political Budgeting from a Comparative Perspective* 24-6 JEPP 789 (2017).

the state prepares a budget plan to which welfare states pay great attention. Within the framework of this act, states define *how they will allocate the funds* they have at their disposal - to a large extent, this follows a *hierarchy* of meeting public needs: first, the functionality of state bodies and organs; (salaries for administrative workers, budget of administrative bodies and authorities, financing of the military, police, etc. Services), functionality of public goods and services (financing of health, education, culture and science, budget for infrastructure projects, public procurement, etc.), financing of economic and social welfare programs.



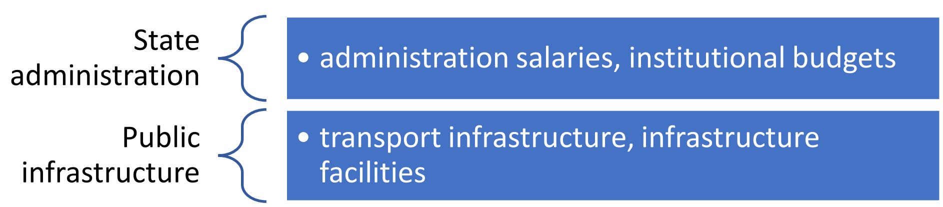
After the funds have been allocated within the budget plan, which is usually prepared for more extended periods of 5 or 10 years, the spending phase follows. This phase is ongoing from the state's financial activity phase, in which welfare states implement projects and programs practically. The overall financial activity of the welfare state is directed towards the main goal – ensuring the well-being of citizens, a higher social standard and economic and social equality. As a result, the state, within the framework of its financial activity, plans and implements economic and financial programs for the promotion of well-being: scholarships for specific categories of people; providing social assistance; giving state support to families and older people; financing kindergartens and nursing homes; programs for support in employment or starting a business. Therefore, the budgets of welfare states are quite *large and complex.*[7]

The analysis of the financial activity of the Swedish government is the subject of study by several international organisations, foundations and institutions. One is the Think Tank – INDEX, which measures countries' economic freedom index. According to the report, Sweden's financial activity is extensive. It is characterised by various types of financial transactions carried out by the government, which

[7] De Schutter Oliver, The rights-based welfare state: Public budgets and economy and social rights, op cit (2018)

consequently means that the average individual has the freedom to decide what to do with their private budget, and the government chooses how the national budget will be distributed. At the same time, the Swedish government collects particularly high and progressive taxes from which it fills the budget. On the other hand, Sweden has one of the highest public expenditures in the region, but despite this, it is distinguished by a high degree of economic and social stability for its citizens and a large number of publicly funded welfare programs.[8]

The financial activity of the minimal state is minimal. This is because, as stated earlier, the minimal state has *a small administration and at the same time has a low level of participation in the private sphere of citizens.* Therefore, the budgets of minimal states are significantly smaller. Their revenue side is based on fees, taxes, and fees at much lower rates, which are much more general public charges on citizens and public loans to the state. Unlike the welfare state, distributing these funds in the second phase of financial activity is much simpler – it consists of financing the state administration and state bodies and basic public goods (transport infrastructure, infrastructure facilities, etc.).



After this allocation is made, the spending phase follows. In the minimal state, the state apparatus is characterized by much greater flexibility due to the small number of institutional actors and public bodies, therefore, spending takes place on an ongoing basis, through continuous review of shorter periods, and given the stability of financial activity, the minimal state does not need complex and intricate budget plans.

The think tank INDEX also assessed the financial performance of the Chilean government. The revenue side of the budget relies mainly on other sources of

[8] Heritage Foundation, 2021 Index of Economic Freedom - Sweden Economy: Population , GDP, Inflation , Business , Trade , FDI, Corruption, (Oct 2023) available at: https://www.heritage.org/index/country/sweden , (last visited Jan 12 2025)

financing, and Chile has particularly low taxes. The expenditure side of the budget is relatively inactive due to the government's low public spending. Chile is considered a country that ranks above the regional and world averages regarding citizens' financial freedom. In the Assessment of the Size of Government and Public Institutions, INDEX concluded that a tiny percentage of public finances is spent on financing the public sector.[9]

IV

Public Revenue: Welfare State vs. Minimal State

Public revenues represent financial resources collected by the state to meet public needs.[10] Public revenues have several characteristics: they are *intended to meet public needs, are collected in monetary form, are collected regularly, and do not affect the existing property of the state.*

One of the key differences between welfare states and minimal states is their attitude towards public revenues. On the one hand, as was pointed out in the previous section, welfare states are characterised by higher taxes and tax rates, due to the need for more funds for their current operations. In contrast, minimal states, conversely, are characterised by lower tax rates and, thus, a smaller state budget. The fundamental ethical question that has persisted for centuries in the sphere of financial and especially tax law is – where does the jus imperium of the state to tax come from? The logical and ethical answer is that the state 'takes' money from citizens because it gives them something in return, and what the state gives back is not directed at a specific taxpayer but at the citizens as a whole. This means that *public revenues are determined by the assumed public expenditures of the state – it will collect as much as it needs to give its citizens what it has planned.* [11]Taxes can differ, but on one side are income taxes (personal income tax and profit tax), property taxes and consumption taxes (value added tax and excise duties). However, in addition to taxes, citizens may also be subject to other so-called public responsibilities such as: fees (administrative, communal, etc.); contributions (for social, health insurance, etc.); customs duties, etc.

Welfare states and proponents of this concept believe that welfare programs and mechanisms justify higher tax rates. Taxes and fees answer the question "Who pays for welfare?" which significantly torments lawyers and economists. Citizens pay for

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[9] Heritage Foundation, 2021 Index of Economic Freedom-Chile Economy : Population , GDP, Inflation , Business , Trade , FDI, Corruption (Oct 2023), available at: https://www.heritage.org/index/country/chile, (last visited Jan 12 2025)

[10] Drljaca Zorica, Public Finance and Financial law *op cit* (2018)

[11] Prasad Monica , *Tax " Expenditures " and Welfare States: A Critique* , JPH 23(02), 251 (2011)

welfare, and citizens benefit from it. Namely, supporters of this concept believe that the citizenry as a whole benefits from a generally higher standard of living and a smaller disparity in the personal incomes of citizens. On the contrary, greater equality and equity in access to goods to satisfy basic needs will create a healthy society. In welfare states, there are various schemes for collecting public revenues, but the most prevalent is the contribution or *pay-as-you-go system.* System (PAYG system). The PAYG system implies that all personal income earned by citizens (on any basis: salary, scholarship, profit from performing activities, income from the work of companies, etc.) will pass through the so-called state filter. This implies the existence of a special body or administration (such as the Public Revenue Office in the Republic of Macedonia) that withholds a certain percentage of such untaxed income based on a tax that represents the annual public income of the state. [12]Welfare states are pretty sensitive to the social inequality of their citizens; therefore, they most often apply the so-called *progressive tax*. This means that the tax rate will increase as the tax base increases. In other words, higher incomes will be taxed more. In this way, citizens who earn a higher income will participate more in the public income of the state because they will pay higher taxes.

Regarding other taxes, it must be noted that the non-earmarked collection of public revenues is mainly applied in welfare states. Thus, gross public revenues become an integral part of the budget, which is then distributed according to a determined plan for state spending. However, social security fees or contributions must be separately distinguished here. They are paid by all citizens who earn any income, and most often, the management of this amount of money is centralised - public revenues received based on social security are allocated to social support and assistance programs. These programs are used to provide personal income in the form of expenses provided by the state to those who do not earn their income, and in this way, the state helps with their social standard and well-being.

On the other hand, taxes, fees and benefits cause a strong feeling of *unease* among supporters of the minimal state. According to them, the purpose of taxation is only to meet the needs of local and central government. Beyond any tax logic, it is expected that taxes should contribute to the equalisation of social welfare. Let's again make a ratio between public revenues and public expenditures. It means that the scheduled activity of the state will determine the type and amount of taxes that citizens will contribute to public revenues. Following this line of logic, it follows that the minimal state will collect taxes, fees and benefits necessary only for *the structural functioning* of the state apparatus and the performance of its minimised function – maintaining the system's stability. In *laissez-faire* conditions, the state and the state apparatus work towards preventing crises in the system and supporting the

[12] Morel Nathalie et al, Financing the welfare state and the politics of taxation , RHWS (2012)

functionality of the public sector, in its instead rationalised form. This means that the state will collect public revenues to satisfy these aspects. In correlation with the welfare state, the minimal state needs a significantly smaller budget, which automatically entails lower tax rates for citizens.[13]

Here, it is essential to make a conceptual pause in the elaboration and to give a brief ideological overview of the minimal state. Namely, its foundations are in classical liberalism and libertarianism. These two political theories focus on elevating private property and the complete freedom of citizens (freedom from any state intervention) to the level of the highest values. The approach to public revenues largely follows this analogy.[14]

Namely, according to the supporters of the minimal state, the imposition of taxes (on income, profits and property) is a form of *taking away the private property* of citizens. According to them, what citizens realise as their income is their private property, which, as such, must not be taken away or limited. In addition, collecting public revenues for a purpose beyond the strictly functionalist role of the government is an unacceptable form of state intervention. In this way, an intervention is made in the otherwise ' perfect' logic of the functioning of the market, which is based on the concept of *'Adam Smith's invisible hand'* according to which the successful become more successful, and those who are not successful, the hand removes them from the market. Transferred to the sociological sphere, this would mean an attachment to the idea that citizens who earn high incomes should be left to enjoy them, and citizens who earn no income or have insufficient income should fight for their well-being, since any participation by the state would be an unfair approach.

As a result, tax systems in minimal states – as systems of accumulation of public revenues – follow a strictly *earmarked logic and flat taxation*: each citizen gives an equal and often particularly low share of their income, which will then be allocated to the functioning of state bodies: the legislative, executive and judicial branches, the police and the army.

This makes the minimal state particularly desirable for citizens with a higher social status, since they will not be subject to high taxes, but also one that is not so ideal form for those with lower incomes, considering that flat taxes would be a burden for them, from which they will not receive much social stability in return.

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[13]Younkis Edward, *The Minimal State , Not the Welfare State*, TI Nov (1998)

[14]Thomson Patrick, The Minimalist Conception of Democracy As Informed by The Works of Schumpeter , Riker , and Hardin, op cit (2017)

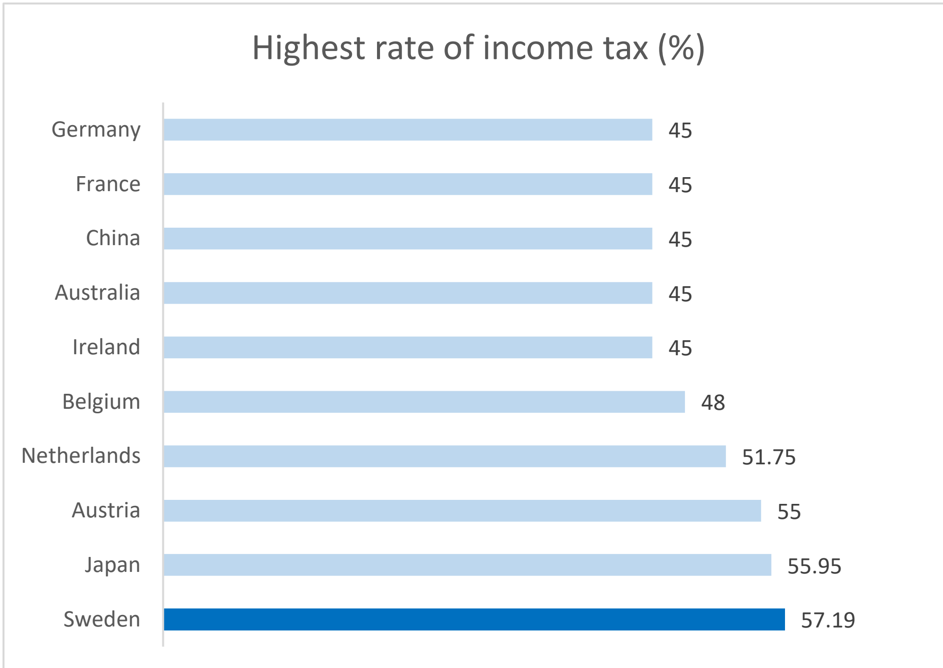
As a member of the welfare state category, Sweden has a progressive personal income tax on two tax bases. The lower tax base is taxed at 32%, which goes to the local budget, and the higher one is taxed at 32%, which goes to the local budget and 20%, which goes to the national budget.[15]

Employment income tax for residents of Sweden		
Taxable income (Swedish kronor)	National income tax by category (%)	Municipal income tax - average (%)
• 0 - 523.200 • 523.200 +	• 0 • 20	• 32 • 32

This puts Sweden in the category of countries with the highest taxes, especially since in 2019, Sweden was at the top of the list of countries with the highest taxes.[16]

[15] Worldwide tax summaries, Sweden, available at : https://taxsummaries.pwc.com/sweden/individual/taxes-on-personal-income , (last visited Jan 12 2025)

[16] World Economic Forum, *Which countries tax their citizens the most*, available at https://www.weforum.org/agenda/2019/11/income-tax-around-the-world, (last visited Jan 12 2025)



Additionally, it must be noted that the amount of social contribution – social security contribution- is 31.42% in Sweden.[17]

On the other hand, Chile has low tax rates ranging from an extremely low 4% to 40%, the highest rate (still lower than the average in Sweden) and an average tax rate of 22%.[18]

Personal Income (in US$)	Tax rates (%)
- 947	0
947 - 2.105	4
2.015 - 3.508	8
3.508 - 4.912	13,5
4.912 - 6.315	23
6.315 - 8.420	30,4
8.420 +	35,5

[17] Supra 15
[18] Santander Trade, Chilean tax system , available at https://santandertrade.com/en/portal/establish-overseas/chile/tax-system, (last visited Jan 12 2025)

On the other hand, it must be noted that an enormous disproportion exists in citizens' standard of living - that is, social inequality, which is expressed through the Gini index (0-1), which in Chile is over 0.5.[19]

V

Public Spending: Welfare State vs. Minimal State

The monetary expenditures of the state that are spent to satisfy public needs without favouring any part of the community are called *public expenditures.* [20]Public needs represent a broad category that, if conceptualised most extensively, includes: the functioning of the political and economic system of the country, international security, internal security, social security of citizens, the functioning of social activities, monetary policy and development, and the extraordinary needs of the state and citizens. This list can be further systematised into pure and impure public goods. Pure can be provided *ONLY* by the state, while impure are those that the private sector can also offer, although it has no interest in doing so.[21] The contextualization of public spending through the prism of the minimal and welfare state entails two theoretical debates: *the neoliberal discussion, which is supported by the proponents of the minimal state, and the social debate,* supported by the proponents of the welfare state.

Supporters of the minimal state believe that public spending must be reduced to a minimum, so that it is directed solely to pure public needs, and everything that the private sector can do will be left to it. On the other hand, supporters of the welfare state think in favour of higher public spending, from which the state will first satisfy pure public needs, and the rest will be allocated in the form of social transfers or social expenditures.[22]

The welfare state, just as it has a large revenue side of the budget, also has a large expenditure side. As was emphasised in the section dedicated to the financial activity of the state, the welfare state follows a pyramid scheme in the allocation of the budget, i.e. planning of public expenditures. First, the basic needs for the system's functionality are met: salaries for administrative workers, budgets of administrative bodies, etc. Then follow the expenditures for public goods and services. These include the construction of hospitals, schools, cultural institutions, parks, and road infrastructure and the financing of public cultural, educational,

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[19] Let's Talk Books And Politics: *Chile, the United States, and Income Inequality,* available at letstalkbooksandpolitics.blogspot.com (last visited Jan 12 2025)
[20] Supra 5, Vesna Pendovska,112.
[21] Id.
[22] Id, 114.

social, and other institutions. The third step in which the welfare state differs from the minimal state is financing welfare programs. In the simplest form, this is: social insurance and social assistance, but it also includes: benefits for students and students, single parents and one-parent families, young families, unemployed people, people at social risk, people with physical or mental disabilities and many other categories. These types of social public expenditures *are not directly profitable* for the state. This means that in the short term, the state will not benefit from their issuance, unlike the first two categories that directly contribute to the return of funds (through taxes and contributions). However, this type of expenditure, often qualified by economists as unproductive public spending, contributes to realising the cause of the welfare state – the well-being of its citizens. Through them, it intervenes in the social standard, so that categories of citizens who have a lower standard are given state aid in the form and type of some of these social expenditures, which influence them to be placed in a better social position, instead of in a less favourable one. In the long term, such investments by the state still prove to be productive, because the 'supported' category of citizens will over time become part of the labour force and will directly contribute to the revenue side of public finances. However, the welfare state does not use the *cost-benefit principle* when making business decisions. Still, it is guided by the set social standards, as well as the satisfaction of the fundamental economic and social rights of its citizens.[23]

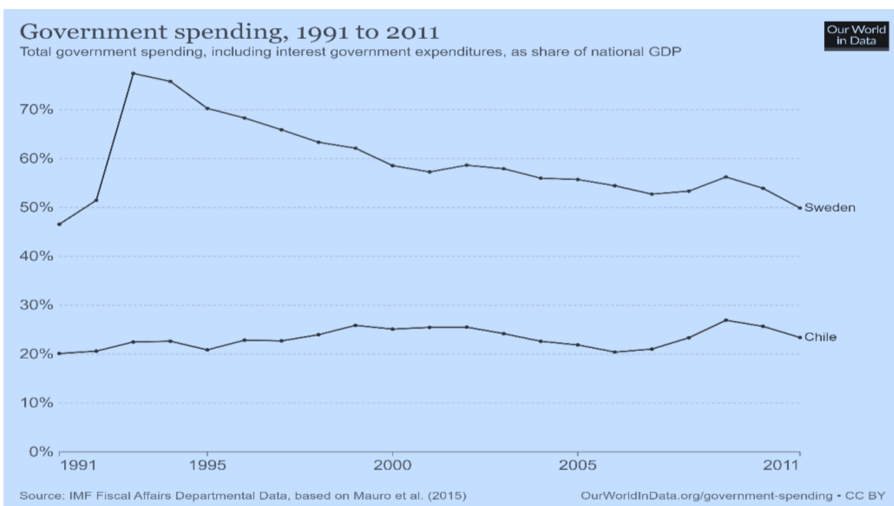
The minimal state and its supporters, however, have a different approach. They strongly emphasise the principle of *rationality* in public spending. The minimal state also means minimal expenditures. This, in turn, means that the state will spend the absolute minimum of funds to perform its functions. However, to this must be added the rationalisation of the state: a significantly smaller administration and fewer responsibilities of the public sector to meet public needs. This results in a situation in which public expenditures are reduced to directly productive expenditures: expenditures on state management, public order and security, defence, servicing of the state debt and guarantees. The rest of the expenses classified at the beginning of this chapter, social protection and security, education, health, culture or environmental protection, fall into the so-called dirty expenditures and are completely handed over to the private sector. One of the mechanisms that minimal states use is the so-called public-private partnerships or concessions through which private companies or organisations undertake to perform a specific type of public work. Under such conditions, the state provides general guidelines and rules for their performance and monitors the work, with minimal intervention. Health and education, culture and science, are again basically privatised, for the alleged purpose of increasing their quality and availability. This automatically

[23] Lindert Peter, *How Was Life? Volume II: New Perspectives on Well-being and Global Inequality since 1820, Social spending and the welfare state*, OECDP op cit (2021).

means they are already leaving the public goods and services category and entering the market domain of exchange.

It must be noted here that social protection and assistance in this state *are not entirely non-existent*, because no state in the world would leave some of its citizens on the brink of existence, at the expense of the principle of non-intervention. However, the minimal state has somewhat limited functions in this regard. They are limited only to social assistance to the most vulnerable, without including other social programs or forms of support. The minimal state seeks to achieve this to ensure an independent, market economy in all possible spheres, *competitiveness and higher productivity*, because these are the key points of its action.[24]

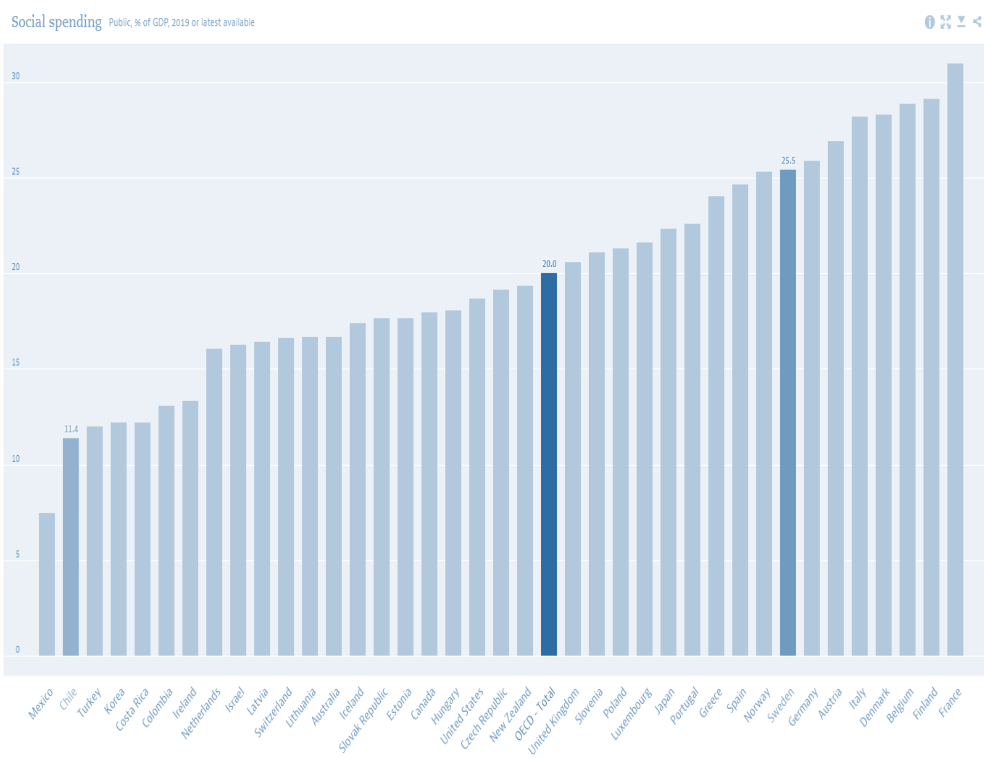
A comparative review of public spending in Sweden and Chile shows that total spending in Sweden, a representative of welfare states, ranges from 50 to 70% of GDP, in contrast to Chile, a minimal state, where such a percentage ranges around 20%. The difference is enormous, following the reasoning that minimal states spend minimally, while welfare states have a lot of public spending. [25]



One specific form of public spending is so-called social spending – directed towards social goals – where there is again a considerable discrepancy between the social

[24] Hasnas John , Reflections him the Minimal State . , Politics , Philosophy & Economics 2, no . 1 , February 2003 , pp. 115–28 , available at: < https://doi.org/10.1177/1470594X03002001426. > , date of access: 30.10.2021.
[25] Our World in Data, Government spending , 1991 to 2011 available at: ourworldindata.org (last visited Jan 12 2025)

expenditures of Sweden (among the highest in the world) and Chile (near the lowest).[26]



Conclusion

Based on the above, several conclusions can be drawn regarding minimal states and welfare states regarding their financial activity, public revenues and public expenditures.

The first finding of the research is the existence of a discrepancy between the financial activity of the two types of states. Thus, on the one hand, the minimal state has a relatively limited economic activity, which is reduced to collecting public revenues on a low scale and limited public spending. On the other hand, the welfare state has a far more extensive financial activity, which begins with preparing long-

[26] OECD Data, Social protection - Social spending , available at: < https://data.oecd.org/socialexp/social-spending.htm >, date of access: 30.10.2021.

term plans for public budgeting; collecting high public revenues from various sources; and comprehensive and targeted spending.

The second finding of the research is related to revenues, as inflows of funds into the state budget. A different approach has been established for collecting funds from which the state budget will be filled, and how this will be done. In minimal states, there is the principle of earmarked revenue collection. So when minimal states introduce fees, taxes and other charges, it is known precisely what the collected funds will be used for. In addition, minimal states are against high taxes and other fees, because they consider them a threat to the private property of citizens, which leads to low taxation rates. On the other hand, welfare states need large budgets, which also entails greater freedom of the state in revenue collection. Thus, welfare states are characterised by higher tax rates from which public revenues are collected for no purpose and are further distributed according to social needs and goals.

The third finding covers public expenditures – the financial resources allocated to meet public needs. Here, it must be noted that welfare states are responsible for meeting a much larger public needs than minimal states. Thus, expenditures in the former are high and follow a hierarchical distribution scheme that first implies meeting the functional needs of the state, then capital and investment projects, then programs and projects for improving the social well-being of citizens. On the other hand, in minimal states, the position persists that the state does not have a mandate to intervene in the social standard of its citizens, which essentially excludes social programs from the public spending agenda.

The fourth finding of the research concerns the classification of modern states. Thus, based on the level of financial activity, the type and volume of public revenues and the type and volume of public expenditures, states can be classified as welfare states or states that are close to this concept and minimal states, or states close to minimal ones. Within the paper's framework, these three aspects were analysed in two modern states: Sweden and Chile, where their polarisation is visible. Thus, Sweden, which is characterised by extensive state financial activity, high tax rates, high revenues, and large expenditures and social transfers, falls into the category of welfare states. On the other hand, Chile – with its somewhat limited financial activity, small government, low taxes and tax activity and minimal spending from the public treasury – is a typical representative of minimal states.

From the above, it can be concluded that significant mutual differences characterise these two types of states. Moreover, the systematisation that includes minimal and welfare states is helpful in determining the state's role in social processes and the private sphere of life of its citizens in general. What is important to emphasise is that the social standard of citizens in Sweden (and hence in welfare states in general) is much higher, unlike Chile (and minimal states). It is a measurable phenomenon, which is seen through their salaries, the Gini coefficient of social (ine)quality, the level of satisfaction among citizens and their income. This means that an average citizen in a welfare state is in a significantly more favourable position than a citizen in a minimal state. To ensure a general improvement in social balance and standards, and thus maximize the satisfaction of citizens, the state must take a greater role and control over social expenditures, since it is the only authority that can do so, and at the same time, to 'tame' competitive capitalism, which contributes to enormous inequality and stratification, through social policies that will serve as its counterweight.