CHAPTER 9

COSMOPOLITANISM AND WELFARE CHAUVINISM IN SWEDEN

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**Abstract**

In 2015, Sweden changed course from having one of Europe’s most open policies toward refugees to having among the more restrictive. This chapter explores this shift by focusing on the underlying economic policy paradigm. Swedish public debate and economic policy is framed by the idea that tax money is scarce and the state should maintain a balanced budget. Higher spending on immigration is expected to come at the expense of the welfare state. Each immigrant is thought to impose a cost on society until they can find work; meanwhile employment levels are held back by the austere fiscal regime. The result is an increase in anti-immigration sentiments and calls for welfare chauvinism. Only those who have “paid in” to the system are deemed worthy of benefits in return. It is easy to see why opponents of immigration would adopt this zero-sum frame. It is harder to see why it would be used by immigration proponents. To explain this puzzle, the theory of policy paradigms is invoked. A paradigm that is more amenable to cosmopolitanism is explored in the frame of functional finance.

**Keywords:** Sweden,Immigration, the Welfare State, Policy Paradigms, Functional Finance

**1. Introduction**

In an infamous political campaign ad, a lone Swedish pensioner is seen racing against a horde of burka-clad women, many of them pushing baby carriages. They all hurry to reach a money spigot labelled “the state budget.” Two emergency brakes hang from the ceiling. “Now you can choose,” says the speaker voice, “a pension brake or an immigration brake.” The ad was made for the Swedish election in 2010 by the right wing populist Sweden Democrat party. It sparked outrage and was banned even before it aired, for breaching the law against religious persecution. The national federation of pensioners denounced it for pitting the two groups of people against each other (Skarin & Lindh, 2010). The welfare state depends on immigrant labor, they said, so the ad presented a false choice.

At the time, the Sweden Democrats was an isolated fringe party. No other party would touch them or their brand of anti-immigrant messaging. A cosmopolitan consensus dominated politics, the media, and, to a lesser extent, the Swedish electorate. But while the explicit islamophobia of the Sweden Democrats was anathema, the underlying frame of a conflict between immigration and the welfare state could be found in mainstream discourse, among the leaders of both political blocs.

In 2014, conservative Prime Minister Fredrik Reinfeldt held a famous – often considered infamous – speech about the need for Swedes to “open their hearts” to refugees. Accepting people who fled war in the Middle East was the country’s moral duty, he said. It would be costly, of course. Opening hearts also meant opening wallets. Less spending would be available for social reforms. The so called “reform space” in the budget would be taken up mostly by aid to refugees. But it was worth it.

This noble sentiment was not shared by everyone. In the shadow of the cosmopolitan consensus, a growing share of voters had begun moving toward the anti-immigration Sweden Democrats. Founded by neo-Nazis in 1988, the party had long been outside the bounds of polite society. But it worked to clean up its act, replacing steel-plated boots with three piece suits. Since anti-immigration sentiment was off-limits for other parties, a sizable part of the electorate was up for grabs. The Sweden Democrats entered parliament for the first time in 2010 with 6 percent of the vote. In 2014, their share grew to 13 percent. As a result, Reinfeldt’s liberal-conservative Moderate party and his coalition failed to secure a majority. Negotiating with the Sweden Democrats was out of the question, so Reinfeldt chose instead to resign and hand power over to the Social Democratic opposition. The cosmopolitan consensus lived on, for a while. Sweden continued to accept the most refugees per capita in Europe. “We do not build walls,” said Social Democratic Prime Minister Stefan Löfven in September 2015, during the wave of Syrian refugees. A few months later, things changed.

The refugee wave of 2015 overwhelmed the existing immigration infrastructure, in part because of a failure to anticipate the severity of the Syrian civil war. Toward the end of the year, restrictions were imposed. Rather than a temporary break, this turned out to be a regime shift. The previous open stance soon came to be seen as hopelessly naïve: the country’s capacity to absorb immigrants had clearly been exceeded. “We will never go back to 2015,” became a new Social Democratic mantra (Olsson, 2021). Social Democratic politicians began to emphasize how much they had restricted immigration. The Moderate party, now inching toward an alliance with the Sweden Democrats, went further. Welfare chauvinism – the idea that the welfare state should be restricted for immigrants – had previously been associated only with the explicit ethno-nationalism of the Sweden Democrats, but now became part of the Moderates’ new strategy. In 2021, the new party leader Ulf Kristersson and his economic spokesperson, Elisabeth Svantesson, suggested that since the Swedish welfare model depends on everyone “paying in,” it is only natural that immigrants should receive lower level of benefits during their first years in the country (Kristersson & Svantesson, 2021). In the spring of 2022, the Social Democratic government submitted a motion to parliament to restrict the pensions of people born abroad (Swedish government, 2022).

How did the cosmopolitan consensus collapse so quickly? One reason may be that it was not very strong to begin with. It was wide but not deep, and was not supported by a solid intellectual foundation. This in turn inhibited policies that would have made immigration more sustainable. Despite the welcoming attitude, the dominant discourse framed immigration as a burden. It was a burden Sweden could, and should, bear, but a burden nonetheless. And if immigration is always framed as a burden, it is not surprising that public opinion would turn when immigration increased. The fundamental discourse about immigration never really changed; what changed was the number of immigrants arriving. The cosmopolitan consensus relied on fair weather reasoning. It depended on solidarity rather than coherent economic arguments.

This chapter examines how the cosmopolitan consensus was undermined by an underlying “scarcity mindset,” centered on resource constraints. More specifically, the binding constraint is conceptualized as a finite amount of tax money. Additional spending on immigrants means either higher taxes or less spending on everything else. This frame does not only dominate the public debate but public policy as well. It is enshrined in a budget law that puts limits on deficit spending. Constant tight fiscal policy keeps the unemployment rate in Sweden at around 7 percent; for immigrants, it stays around 15 percent. Investments in housing and public services that would have been needed to for successful integration have been neglected. Immigration has been accompanied by social problems and crime, fueling resentment among voters.

An alternative frame could suggest that it is always appropriate to spend more money when the population grows, whether from immigration or native births. This latter frame has largely been absent in the public debate, even among proponents of immigration, making any serious commitment to cosmopolitanism a major challenge. Cosmopolitanism and scarcity sit uncomfortably together. When put under pressure, one of them will have to give. In line with Peo Hansen (2021), this chapter will suggest functional finance as an alternative frame that would be more amenable to cosmopolitanism

**2. Two frames: scarcity versus abundance**

Political views are shaped by tacit notions of how the world works. One dividing line runs between whether resources are perceived as fixed or elastic. If the world is viewed as a zero-sum game, immigration can only occur at the expense of natives. Right wing populism is built around the idea of in-groups and out-groups. Support is garnered when the in-group is made to feel threatened by the out-group. A zero-sum conception of the world is integral to that project. Historically, the concept of scarcity has been fundamental to ethno-chauvinist ideology. Fascism was constructed on the idea that the world was being closed off to late developing countries, whose only hope was aggressive expansion (Mann, 2004). The idea of a fixed level of food production was translated into a perceived need to secure living space abroad.

Regarding real resources, both frames can be said to have a legitimate claim to truth, depending on the context. The scarcity frame is more plausible in the short run, while the abundance frame becomes more plausible in the longer run. At any given point in time, there are only so many real resources for people to share. In a longer perspective, new resources can be created. Infrastructure can be built, people can be trained, and immigrants can join the workforce. Moreover, resources are often idle or used in inefficient ways. And the technological frontier can be moved infinitely. Capitalist economies are “surplus economies”, where the ability to produce resources outruns to the capacity to consume them (Kornai, 2013).

While there is truth to both frames, one common version of the scarcity frame is harder to support. In the dominant public discourse in Sweden, a leap is made from the notion of scarce real resources to a scarcity of money. While true at the individual level, it does not apply to a nation state with its own currency and central bank. An underlying premise of the Swedish discourse around immigration as a burden is that tax money is scarce. The welfare state is thought to depend on a steady stream of revenue, and when expenses go up, the welfare state will either have to be cut, or taxes increased. The logic of tax payer money holds that anyone who receives more in benefits than they pay in taxes is a net drain on the state’s ability to finance the welfare state. With this logic, the more a person earns, the more they pay in taxes, and the more they contribute to the welfare state. Immigrants, who often find themselves at the bottom of the labor market or outside it altogether, are conceptualized as parasitic. The view that immigration results in reduced expenditures for other ends or increased taxes is framed not as a political choice but as an inescapable fact about how the world works. It is built into the dominant policy paradigm.

**3. Policy paradigms**

The term policy paradigm was coined by Peter Hall (1993) to explain the sudden shift from Keynesianism to Monetarism in Britain. It is borrowed from Thomas Kuhn’s (1962) term for the unseen structures of taken-for-granted assumptions that shape scientific thought. Paradigms enable cumulative learning, but anomalies emerge along the way. At first they can be explained away or made to fit within the paradigm through ad hoc-solutions. But eventually their weight may grow so large that the paradigm collapses, making previous knowledge obsolete. Frank Dobbin (1993, 1994, 2002) builds on Peter Hall’s adoption of the term into social science, using it to explain national differences in industrial policy. Closely related ideas can be found in Rein and Schön’s (1991) notion of policy frames. Intellectual roots can be found in the tradition of social constructivism, and the study of how subjective understandings of the world shape thoughts, actions, and institutions. Policy paradigms encapsulate the power of the Thomas Theorem: “If men define situations as real, they are real in their consequences” (Merton, 1948).

Policy paradigms are socially constructed conceptions of rationality, reflecting shared understandings of how the world works (Dobbin, 1994). They are institutionalized meaning systems, embodying deep-seated conceptions of relations between cause and effect. Policy paradigms pertain to the tacit dimension of policymaking; as cultural constructions, they are difficult for members of the same culture to critically evaluate, or even observe. Their power derives from being considered so obvious that they rarely have to be fully articulated. They are “influential precisely because so much of it is taken for granted and unamenable to scrutiny as a whole” (Hall, 1993: 279).

Policy paradigms operate through language, and are “embedded in the very terminology through which policymakers communicate about their work” (Hall, 1993: 279). Their power derives from the ability to facilitate story-telling. They underpin narratives and discourses that organize thought, perception and actions (Rein & Schön, 1991). Central components are “generative metaphors,” that are carried over from one domain to another, changing how social phenomena are perceived (Schön, 1979). Through metaphors, complex societal matters can be understood as variations of everyday experience, providing a “common sense” understanding of the issue. Policy frames are “predicated on the notion that the social world can be understood as a series of mundane cause-effect relationships that can be gleaned directly from experience” (Dobbin, 2002: 186). Such simplification serves the useful purpose of pointing out paths of action through an otherwise confusing jumble of empirical facts and events.

As in Kuhn’s theory of science, there is often no way for bearers of different policy paradigms to agree. Disagreements within a common frame can be resolved by recourse to facts, but when frames collide they give rise to insoluble *controversies*, “which cannot be settled by recourse to facts alone, or indeed by recourse to evidence of any kind; because they derive from conflicting frames, the same body of evidence can be used to support quite different policy positions” (Rein & Schön, 1991: 265). Much like scientific paradigms, policy paradigms persist until the number of unexplainable anomalies grow so large that the paradigm breaks down, and a new one takes its place. Conversions from one paradigm to another do occasionally occur, but progress mainly advances, as Max Planck put it, one funeral at time. The switching of paradigms takes place with the logic of social movements (Fligstein 1990). Needless to say, changes paradigms generally change when their policy prescriptions align with the interests of powerful actors. Once in place, however, their power persists through institutionalization and their status as unexamined truths. As such they are difficult to displace. Attacking a paradigm head-on is rarely the most tactical way to make an audience receptive to your claims. When seeking support for a policy, it is common to present arguments that hitch on to dominant frames and their conventional metaphors, in turn strengthening them (Rein & Schön, 1991: 268). That is how policy paradigms can persist for centuries.

The Swedish paradigm for framing the costs of immigration can be defined as the sound finance paradigm. It will be explained below, followed by a description of an alternative, and currently marginal, paradigm that might fit better with cosmopolitan ideals: the functional finance frame.

**4. The sound finance paradigm**

The sound finance paradigm is built around the generative metaphor of the household budget, applied to the budget of the state. Money is depicted as a scarce physical *thing*, just like gold or silver coins; as such, it corresponds to the tradition within economic through known as *metallism* (cf. Schumpeter, 1954: 288-99). Colorful images are invoked from pre-industrial times, when taxes were collected *in natura* and stored in warehouses and granaries. In official Swedish rhetoric, the state’s budget is often likened to a barn or a granary. The need to keep the “barns full” is a favorite phrase of the Social Democratic finance minister, and now prime minister Magdalena Andersson. The image of the state budget as a grain storage makes spending more than taxing seem very reckless, to the point threatening future survival.

In the sound finance view, the state is financially constrained by its income, just like a household. It can only spend what it first has collected in taxes. The constraint can be relaxed through borrowing, but only temporarily and at great cost, because debts need to be repaid with interest. The need to match spending with taxes can be postponed by never escaped. Only investments that can be expected to yield a financial return above the rate of interest are considered prudent. Just as the sound finance frame allows no distinction between a household and a state budget, no distinction is made either between private and public debt. The amount of money available for the state to borrow is determined by private lenders, who also set the interest rate. If the national debt becomes too high for their liking, they will demand higher rates, and at times, demand austerity to restore confidence in the state’s ability to pay. The possibility to “print” money is rejected as inflationary. Central bank policies to keep interest rates low through quantitative easing or yield curve control are seen as inflationary expressions of fiscal dominance.

The essence of the sound finance frame can be found succinctly summarized by Margaret Thatcher (1983) in her speech to the Conservative Party conference in 1983:

The State has no source of money other than money which people earn themselves. If the State wishes to spend more it can do so only by borrowing your savings or by taxing you more. It is no good thinking that someone else will pay – that ‘someone else’ is you. There is no such thing as public money; there is only taxpayers’ money.

Another influential point of reference can be found in Bill Clinton advisor James Carville’s depiction of the bond market as the most powerful force in society, which has to be placated through austerity, lest it punishes the economy with high interest rates. In Sweden, the paradigmatic expression is former Prime Minister Göran Persson’s mantra that “*He who is in in debt is not free,*” and his book with the same name (Persson, 1997). Here, the conflation between private and public debt is complete. The way to escape the power of private bondholders, according to Persson, is not an activist central bank but to pay them back as soon as possible, and then avoid going into debt again.

The sound finance paradigm is built on common sense reasoning, but is augmented by academic macroeconomics (e.g. FPR, 2022) in which the household metaphor is considered as an accurate enough expression of the notion that the value of money is related to its relative scarcity. Inflation figures in the background, generally with an assumption of a 1:1 relation between spending and inflation, regardless of where spending is aimed. Usually, inflation does not have to be invoked, however. In the era under study here, inflation was persistently seen as a *too low*. Academic arguments for the sound finance frame are more often couched in political rather than economic terms, about how politicians need to be restrained (e.g. the Swedish budget law, which draws heavily on the school of public choice).

In the sound finance view, spending and taxing is done with an eye to keep a balanced budget, not to keep spending sufficient to maintain full employment. Unemployment is seen as beyond the scope of fiscal policy. It is seen as a problem of the personal characteristics of the unemployed, or structural features of the labor market, not in macroeconomic policy. Solutions are not to spend more but to upgrade people’ skills through education, or lower their wages to make them more attractive to employers. Monetary policy is considered the appropriate tool to keep unemployment down, but there is a “natural rate” below which unemployment cannot go without sparking inflation.

**5. The functional finance paradigm**

The term functional finance was coined by the Keynesian economist Abba Lerner (1943). More recently it has been associated with the school of neo-chartalism or Modern Money Theory (MMT) (see e.g. Wray, Mitchell and Watts, 2019; or Kelton 2020 for a popular account). It is generally associated with Keynesianism, and draws on the long tradition in which money is not equated with a commodity but a token, given its value by state fiat. In the functional finance frame, money is a creature of law, of the state’s charter. It corresponds to the tradition of economic thought known as *chartalism* (Schumpeter, 1954: 288-99).

In the functional finance paradigm, tax money is not considered a scarce resource but something the state creates and destroys routinely at will, to ensure that all available real resources in the economy are fully utilized. Turning the familiar sequence of taxing and spending around, it holds that spending comes first, followed by the state taxing some of the money back. There is never an issue of running out of money. In the words of the New York Federal Reserve Board chairman Beardsley Ruml (1946): taxes for revenue are obsolete. The function of taxes is not to collect revenue but to ensure that there is demand for the currency. Taxing is done to reduce inflation, to influence behavior, shape the distribution of income, or other social goals. The limit on spending is inflation, not the risk of insolvency.

Selling government bonds is not needed for financing purposes but is done as a monetary policy tool to enable the central bank to hit its interest rate target. The state can never find itself facing funding problems. The reserves that banks use to buy government bonds come from state spending to begin with. The interest rate is set by the central bank. As long as a state has its own currency with a flexible exchange rate and a central bank, private investors or “bond vigilantes” have no power to set rates.

The generative metaphor for money in the functional finance paradigm is not gold or other valuable commodities such as grain but a token. Money is not intrinsically valuable, but gains value depending on the institutional context. It is determined by the power and capacity of the issuer, and its scarcity relative to the productive potential of the economy where it is used as a means of payment. Common similes include theater tickets or wardrobe tokens that are issued first and collected later. The purpose of collecting them is not to build a stash of tokens but to ensure compliance with the rules.

The functional finance paradigm cannot be said to have been fully institutionalized in Sweden, in part because of a long adherence to a fixed exchange rate. But it was influential during the Keynesian era. The central idea can be seen summarized in the following words by leading Swedish economist Assar Lindbeck (1973: 67):

The task of fiscal policy is, as we know, *not* to balance the state budget but to balance the economy… The function of taxes is *not* to collect revenue for the state but to dampen demand in the private sector – in other words to “kill” private purchasing power of goods, services, and labor… It is the expected availability of idle factors of production that determine whether there is room for expansive fiscal policy or not; and if the availability of idle factors of production lead to a budget surplus or deficit matters not one bit. [*My translation; emphasis in the original*.]

In the functional finance frame, it is the responsibility of the state to make sure there is enough spending maintain full employment. In principle, this can be achieved through either tax cuts or spending increases. Because of inflation, most functional finance adherents advocate targeted public employment to reach those furthest from the labor market. This corresponds to Swedish labor market policy in the postwar era, during which up to a third of unemployed workers were referred to public works known as relief work (NLMB 1966: 37-8).

**6. Institutionalization of the sound finance paradigm**

More than a mental frame, the sound finance paradigm is embedded in the institutions of the Swedish government. It is enshrined in the budget law, and a fiscal framework that mandates a budget surplus across the business cycle. There are no legal or constitutional obstacles to running an unbalanced budget – the power of budgeting is in the hands of parliament. But the fiscal framework exerts a strong normative pressure. It is safeguarded by government watchdogs such as the Fiscal Policy Council, The National Institute of Economic Research, and The Swedish National Financial Management Authority. Several elements of the fiscal framework are open to interpretation, such as the definition of a business cycle or an output gap. A government’s spending plans can differ from those of fiscal watchdogs. But their estimates provide a powerful anchor. At the municipal level, the national fiscal surplus target takes the form of a sort of autopilot austerity. Municipal budgets do not grow in line with inflation. If no deliberate spending increases are made, inflation-adjusted expenditures decrease every year. When immigration increases, it may well crowd out other expenditures, if not for economic then for political reasons. Prohibitions on bringing unemployment down through expansionary fiscal policy at the national level mean that immigration will result in an ethnic underclass of disproportionately unemployed immigrants. Segregation cannot be mitigated by building more housing. Social problems and crime go unaddressed. In a setting where the sound finance paradigm is taken for granted, these factors can be taken as proof of immigration as inherently burdensome.

**7. The immigration debate in Sweden**

When Prime Minister Fredrik Reinfeldt urged Swedes to “open their hearts” to immigrants, he made it clear that they should expect a less generous welfare state in return. His finance minister Anders Borg announced that the increasing influx of refugees meant that there was no fiscal space at all for new spending. The announcement was welcomed by the Sweden Democrats as an early Christmas gift (SVT 2014). Party leader Jimmie Åkesson commented on Reinfeldt’s speech by saying “it has become very clear… that the choice is between welfare and continued large scale asylum immigration” (Hagren Idevall, 2016: 77).

Reinfeldt’s Social Democratic successors later flipped his argument: since they had restricted immigration, finance minister Magdalena Andersson said, this meant that more money would now be available for welfare. Still, costs remained. In 2016, the reception of asylum seekers was expected to cost the state 70 – 80 billion SEK per year until 2020 (Svenska Dagbladet, 2016). Finance minister Andersson commented that “of course, this means there will be less fiscal space to achieve other reforms.” Ulf Kristersson, the subsequent leader of Reinfeldt’s Moderate party, commented that this will “crowd out everything else if nothing is done.” The idea of a fixed pot of money, available for either immigrants or pensioners is not restricted to the Sweden Democrats. It is canon in both political blocs. Jonas Sjöstedt of the Left Party criticized Reinfeldt’s rhetoric for accepting the same framing as the Sweden Democrats, as a choice between immigration and the welfare state (Hagren Idevall, 2016: 78). But he did not voice any fundamental criticism of the sound finance framework. The reason there is no money for welfare, housing or railroads, he said, is because of tax cuts.

An important element of the Sweden Democrats’ narrative is the distinction between “makers” and “takers”. It is expressed through the state budget, by who pays taxes and who receives welfare payments. A letter to the SD-affiliated news site *Axpixlat* illustrates the narrative:

Why should I work when others get their money from the state? Why should I pay taxes to the state when that money goes directly into other people’s pockets? Why should some people work hard all their lives only to end up with a lower income than someone who just arrived to the country, who has never worked, and never paid taxes? (Hellström, A., & Lodenius 2016: 63).

Such attitudes can find support in official government reports. A report published by The Expert Group on Public Economics (ESO), an independent research body under the department of finance, calculated that an average refugee costs 74 000 SEK each year (Ruist, 2018). The figure was calculated by measuring costs against tax receipts. Differences are large between countries of origin. Different groups have different “price tags.” One reason behind the cost, the report notes, is that it takes much longer for immigrants to enter the labor market than during the high pressure economy of the 1980s. “It is doubtful whether it is possible to reach this fast employment integration again,” the report states, “as unemployment was kept low in the 1980s in a way that was not macro-economically sustainable” (Ruist, 2018: 7). Using fiscal and labor market policy to return to full employment is in other words not considered an option.

A report by the Fiscal Policy Council (Aldén & Hammarstedt 2016) that focused more closely on newly arrived refugees concluded that each refugee inflicted a cost of 190 000 SEK on the state budget during its first registered year in the country. Costs declined with time but was still around 37 000 SEK per year after the seventh year. The main reason was that a large number of immigrants are unemployed. Many refugees have low levels of education, and traditions in which women do not participate in the formal labor market. The Fiscal Policy Council (FPR 2022) does not consider unemployment among immigrants to be a problem that is soluble with more spending. It is not deemed to result from insufficient aggregate demand but “structural” factors that require targeted interventions (FPR 2022: 41). In a previous era, targeted interventions could have included direct public job creation, in the form of so called relief work (NLMB, 1966). Now, it means education and efforts to lower the threshold into the labor market by addressing wages and regulations.

A 2022 report for Malmö municipality concluded that there are around 75 000 people living in the city who cannot support themselves economically (Eklund & Larsson, 2022). Most of them are born outside the country. 72 percent of people with two Swedish born parents are found to be economically self-supporting, while only 43 percent of people with parents born in “non-western” countries. The report’s suggested measures to deal with the problem is to reduce welfare payments, in order to increase incentives for the unemployed to find work. Public works or other more traditional “Keynesian” measures are not considered. While the report concerns the municipal level, where the local government is indeed dependent on tax revenues, it has become an influential reference point in the national debate.

Demographic arguments in favor of immigration are not uncommon. Swedish birthrates are low, and many commentators agree that immigration will be needed to maintain the welfare state in the long run. In the short term, however, there is agreement that immigrants impose a cost on society, certainly until they find employment. Since employment levels are constrained by the fiscal framework, a large share of immigrants will find themselves unemployed. In the Sweden Democrats’ narrative, a distinction is often made between the “good” immigrants arriving in the old days when Sweden had a lack of workers and the “bad” immigrants who have arrived more recently, and are often unemployed (Hagren Idevall 2016). Today, macroeconomic policies to maintain a “high pressure” economy where even uneducated immigrants could find employment are considered out of the question.

**8. Dissenting Views**

There are a few dissenters from the sound finance view on immigration. Economist Erik Hegelund said that it doesn’t make sense to talk about the cost of immigration (Lehnberg, 2014). To the extent that there is a cost, it is about unemployment, which is the responsibility of economic policy. Peo Hansen (2021) argues that the immigration debate would be well served to adopt a functional finance perspective. None of the dire warnings about the economic burden of immigration have come to pass, he argues. On the contrary, by forcing the state into a rare instance of expansive fiscal policy, the 2015 immigration wave was actually an economic boon. Municipalities that had long been suffering decline received a fiscal boost from the central government. So far, these views are very marginal. Most critics of the fiscal policy framework begin by praising its achievements in the past. It was useful for its time, the story goes, but has since become obsolete. Such criticism cannot but strengthen the sound finance paradigm.

**9. Persistence of the Sound Finance Paradigm**

The persistence of the sound finance regime is in many ways path dependent. It became prominent in the 1990s, largely by the Social Democratic party, and has since then become a major part of their brand and identity. The paradigm became institutionalized through a narrative about the economic crisis of the 1990s, in which sovereign was identified as the cause. The narrative is not only present in the Social Democrat’s own telling of history, but in supposedly neutral journalistic accounts as well (e.g. Olsson & Rosén 2022). One of the most immigration friendly parties in the Swedish parliament, the Green Party, has been known to exalt the fiscal policy framework, and hold it as a model for how Sweden could live within its carbon budget (Romson, et al, 2012). (More recently, the party has begun arguing for an exception to the framework, however, to enable climate investments.)

Certain anomalies have emerged that might challenge the sound finance paradigm, but they have so far been ignored or successfully explained away. The Euro-crisis showed that countries with large debts could face a dangerous spiral in which private lenders kept demanding ever higher interest rates. This was the takeaway among Swedish policymakers. Less attention has been paid to the fact that the European Central Bank (ECB) chief Mario Draghi could, with a few words, cool the markets and bring rates down toward zero. As shown by the ECB’s (2022) recent crafting of an “anti-fragmentation tool” to close interest rate spread between Euro members, rates are determined by central banks, not private markets. In Sweden, only the first part of the story is told in the public debate. The finance minister often invokes it as an argument for fiscal prudence, at home or when lecturing other EU countries abroad (Hivert, 2020).

This second part of the story can appear in academic contexts. To reconcile the power of the central bank with the sound finance frame, a moral hazard argument is applied (Calmfors, 2013). Capping interest rates of distressed countries in the EU periphery might prompt them to engage in even more fiscal recklessness in the future. Continuous bond buying will be required to keep spreads from widening. Such “intervention” can be only be justified if there is a market failure: if lenders are mispricing yields on sovereign debt, causing a self-reinforcing spiral. The ECB can then step in to restore the “true” market price. Evaluating the proper role of the central bank in this manner involves an attempt to separate purely economic from political dynamics; underlying the sound finance frame is a market fundamentalist ontology. In the functional finance frame, assessing the price of a financial asset as if the central bank backstop did not exist is not a meaningful exercise. The role of political entities are fundamental to the monetary system.

A second anomaly is the Covid-19 pandemic, when developed country governments everywhere were able to spend vast sums of money without having “saved up” fiscal space in the form of low sovereign debt. Swedish finance ministers still claim that Sweden’s powerful fiscal response to the pandemic was made possible only by previous prudence (Olsson, 2021; Damberg, 2022). Economists at Swedbank have questioned this narrative by pointing to the international context (Wallström et al, 2020), to little effect. To believers in the sound finance paradigm, the pandemic has reinforced rather than undermined it.

Another anomaly is Japan, a country with a 250 percent debt-to-GDP ratio and interest rates close to zero, simply because the Bank of Japan (BOJ) chooses to keep them there. Articles can be found in the Swedish financial press about the BOJ’s policy of “yield curve control,” mainly is a threat to investors (Åkerman, 2020), but there is scarcely a mention of what the Japanese example might mean for fiscal policy in Sweden in other media.

In their latest report, the Fiscal Policy Council (FRP 2022) warns that respect for the fiscal framework is waning. Even if this is unlikely to lead to a wholesale rejection of the sound finance frame, it might lead to a softening. Social Democrats have been known to abruptly change long-held positions. Their about-face on immigration is one example; the one on NATO membership another. Improbable as it may seem, one day they might change their mind on the sound finance paradigm as well. But there is no reason to expect it to come from a mere change in factual circumstances, as facts can be reconciled with a wide variety of frames. It would take the diffusion of alternative ideas, mobilized through public pressure.

**10. Conclusion and Discussion**

This chapter has made the case that the cosmopolitan consensus in Sweden collapsed so quickly because it had no strong economic foundation. The public debate has been framed by a paradigm in which tax money is considered a scarce resource, setting up a perceived trade-off between immigration and the welfare state. As long as immigration was modest, sacrificing the welfare state for moral reasons could be seen as a viable political option, but attitudes changed when immigration increased. More than just a frame for public debate, the sound finance paradigm is institutionalized in Swedish economic policy. A fiscal framework inhibits large scale public spending to accommodate population growth and maintain full employment. Problems caused by immigration go unaddressed. A class of unemployed immigrants in segregated areas with social problems and crime has emerged. With fiscally expansive policy off the table, these problems are blamed on the personal characteristics of immigrants, rather than a macroeconomic policy failure.

The idea that government welfare payments come from a stream of tax revenue creates a mental image in which high income earners fund the welfare state, while low income earners are a drain. Immigrants, who have disproportionally low incomes, are perceived as parasitic. The logic leads to calls for welfare chauvinism. Only those who have “paid in” to the state coffers are worthy of receiving benefits in return. The idea is given scientific gloss by official government bodies such as Expert Group on Public Economics and the Fiscal Policy Council. Their calculations are built on the premise that tax payments determine whether a person contributes to the welfare state or detracts from it. There is no reason to question the validity of their numbers, but switching to the functional finance frame would prompt questions about their relevance.

In the sound finance frame, high income earners uphold the welfare state. In the functional finance frame, the logic is the opposite. Taxes do not serve to finance state expenditures but to reduce purchasing power to dampen inflation. If people already have low incomes and purchasing power, the need for inflation-dampening taxes becomes less pressing. High income earners on the other hand pose an inflationary threat that needs to be neutralized. They take up fiscal space that could have been used by the welfare state. Those who work for low wages contribute their labor to society without exerting a commensurate inflationary pressure in return. If they are unemployed, the fault lies with a lack of fiscal and active labor market policy. Immigrants receiving more in benefits than they pay in taxes does not mean that there is less in a fixed pot of money available for others. It means that employment levels and wages are too low, which can be remedied by expansionary fiscal policy or public employment.

It is easy to see why the zero-sum framing is useful for political actors who want to capitalize in anti-immigration sentiment. It allows their preferred policies to win by default. It is harder to explain why the scarcity frame is also used by those who favor immigration, such as the Green Party. The theoretical concept of policy paradigms can be useful to explain this puzzle. Policy paradigms consist of taken-for-granted assumptions about how the world works. They make certain policy proposals seem reasonable and others inconceivable. The sound finance paradigm is institutionalized in respectable government agencies and academia, making it hard to refute or even acknowledge. Policy paradigms and their associated narratives explain how political ideas and practices persist across time and political divides, by turning potentially controversial ideas into common sense.

Modern societies pride themselves of having “rational” political and economic institutions that make policymaking a matter of applying of straight-forward means-ends measures to an objective reality (Dobbin, 1994). But rationality itself is socially constructed. What is deemed rational differs between countries and time periods. State concertation may be considered rational in France, while promoting competition is considered rational in Germany. Prevailing ideas about how to govern modern societies are no less socially constructed than the meaning systems of the so called “primitive” societies studied by anthropologists. As Frank Dobbin (1994) argues, social scientists should approach the prevailing assumptions of their own culture with the same detached skepticism. Life-long cultural immersion makes that difficult, of course. Fish are not wont to comprehend water. The two frames, just like all ideal constructions, are products of culture, and should be viewed that way. This chapter can be seen as an appeal for participants in the immigration debate to take fundamental macroeconomic questions seriously. There is no other way to ascertain whether, and to what extent, there in fact is a trade-off between immigration and the welfare state.

Needless to say, switching from the sound finance paradigm to the functional finance paradigm would not be sufficient to create a more sustainable cosmopolitanism, even though it may be necessary. Money alone does not solve everything. Investments take time to pay off. The difference would be that the debate would move on to real resources. Immigration does pose a trade-off at certain points, and under certain circumstances. Figuring out where the line goes is not easy. Invoking resources constraints is a common way to appear realistic and hard headed. Determining the true nature of those constraints exceedingly difficult, however. It requires granular analysis of industries, supply chains, and their interrelations.

At a fundamental level, ideas about economic sustainability of immigration turns on ideas about inflation. Proponents of the sound finance frame might say that the best policy to fight inflation is to keep public spending to a minimum. This assumes a 1:1 relation between spending and inflation, regardless of where spending is aimed, eliding complex questions of the relation between money, balance sheets, production, capacity utilization and resource constraints. Inflation can result from both excessive demand and inadequate supply. Starving the economy of aggregate demand and hence investment is likely to result in a more inflationary environment later on.

Schumpeter (1954: 288-299) observed that the rival schools of *metallism* and *chartalism* have competed since the days of Plato and Aristotle. Perry Mehrling (2013: 9) sees a dialectic between them, each emerging in different economic circumstances: metallism in response to excessive money printing and chartalism in response to recession. Inflation is often blamed on money printing, so if Mehrling is right the inflation of the early 2020s might lead to the reinforcing of metallist, or hard money, ideas.

The role of supply-side disruptions in the current inflation makes any straight-forward arguments about overheating difficult to sustain however. Even “frugal” countries like Sweden, with a debt-to-GDP-ratio of 35 percent, have not been able to escape inflation rates around 8 percent. In contrast, Japan, with a debt-to-GDP ratio of 250 percent, has seen only an increase in inflation to around 2 percent. On the other hand, the pandemic and the war against Ukraine have also shown that real resource constraints can in fact bind even under capitalism, at least under certain circumstances. Supply chains have shown themselves to be very brittle, and prone to bottlenecks and self-amplifying disruptions (bullwhip effects).

Ultimately, as the theory of policy paradigms indicates, policy debates are not won by facts but by their interpretation. Neither side of the debate have any difficulty coming up with explanations that fit their paradigm.

The sound finance frame in Sweden draws its strength from a narrative about history. According to prevailing lore, the Swedish economy of the 1990s was threatened by a huge public debt, and it was saved by political efforts to bring it down. From the functional finance perspective, this would be like blaming a car crash on the airbag. The initial cause of the crisis was the bursting of a credit bubble, and public debt increased to absorb the shock. By reducing this support, unemployment increased, and has never reached the low levels of the postwar era again. It is not easy to see how such an opposing narrative could gain ground. For that to happen, the historical narrative and intellectual foundation of the sound finance paradigm would have to be discredited.

Anti-immigration sentiment is not as strong as it was just recently. In a 2020 opinion poll among Swedish voters, only 8 percent of respondents wanted to increase immigration (Thurfjell, 2020). With the outbreak of war in Ukraine, it turned out that there was room for more immigrants after all: now 80 percent responded that Sweden should accept Ukrainian refugees (Göthlin, 2022). A poll in May 2022 found that Swedes exhibit an increased openness to immigration, not just specifically to Ukrainian refugees but in general as well (Rosén 2022). Whether this leads to a more permanent shift remains to be seen. A new framing of the issue – and the policy recommendations that flow from it – could lead to a more sustainably cosmopolitan future. Otherwise, the increase in support may prove transitory.

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