

A Model of Fiscal Deficits and Delayed Fiscal Reforms

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This paper develops a political-economic model of government spending --one in which government wealth is a "commons" from which groups inside the government can extract resources to finance their expenditures. This setup is shown to have striking macroeconomic implications. First, fiscal deficits and debt accumulation can occur even when there are no reasons for intertemporal smoothing. Second, those deficits may be sometimes eliminated through a fiscal reform, but such stabilization can only take place after a delay during which government debt is built up.

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