

A Model of Endogenous Fiscal  
Deficits and Delayed Fiscal Reforms

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This paper develops a political-economic model of fiscal policy --one in which government resources are a "common property" out of which interest groups can finance expenditures on their preferred items. This setup is shown to have striking macroeconomic implications. First, fiscal deficits and debt accumulation occur even when there are no reasons for intertemporal smoothing. Second, those deficits can be eliminated through a fiscal reform, but such a reform may only take place after a delay during which government debt is built up.

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