

## Abstract

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 has striking macroeconomic implications. Transfers are higher than a benevolent planner would choose them to be; fiscal deficits emerge even when there are no reasons for intertemporal smoothing, and in the long run government debt tends to be excessively high; peculiar time profiles for transfers can emerge, with high net transfers early on giving rise to high taxes later on; and multiple dynamic equilibrium paths can occur starting at the same initial level of government debt. *JEL Classification Numbers: H3, H6, E6. Key Words: fiscal policy, fragmentation, decentralization, local public goods, debt.*