

# Delay in Fiscal Reform

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## **Abstract**

This paper analyzes the political economy of delayed agreement over fiscal reforms, in a setting where two interest groups can bargain over the allocation of the cost of the stabilization. This contrasts with the classic contribution of Alesina and Drazen, who assume that a group which concedes earlier bears a *fixed* disproportionate share of the burden. The approach of this paper is to study an alternating offers model of bargaining in the economic environment of Alesina and Drazen i.e. where bargaining takes place in continuous time, and there is two-sided uncertainty. This allows a systematic comparison of expected delay in the bargaining game and in the concession game of Alesina and Drazen. When interest groups are sufficiently patient, or when shares in the concession game are very unequal, agreement is reached more quickly on average under bargaining. But, both games have the common feature that delay signals the “toughness” of the interest group.

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