

# *Government Size, Fiscal Decentralization, and Budget Slack: Evidence from Chinese Prefectures\**

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## *Abstract*

Budget slack is often viewed as the organizational abundance derived from sound fiscal management to cope with external shocks in the context of developed countries. However, it also suggests unspent budgets and low spending efficiency due to poor fiscal management, which is the case for local governments in China. We employ a fiscal management perspective to explain budget slack in local China by focusing on government size and fiscal decentralization. Our panel data for 335 prefectures show that local government size significantly drives budget slack. While revenue decentralization reduces budget slack by exerting a mediating effect through government size, expenditure decentralization positively moderates the impact of government size on budget slack. Echoing the call to differentiate budget slack, our study supports a novel argument that local budget slack in China is derived from poor fiscal management, as demonstrated in our empirical findings of government size and fiscal decentralization. This study has meaningful policy implications for understanding and enhancing recent fiscal management reforms in local China.

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