Political Parties and Labor Market Outcomes:
Evidence from U.S. States

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Abstract

This paper estimates the causal impact of partisan allegiance (Republican or Democratic) of U.S. governors on labor market outcomes. I match data from gubernatorial elections with data from March CPS for income years 1977 to 2008. Using a regression discontinuity design, I find that Democratic governors are associated with lower average individual earnings. I provide evidence that this is driven by a change in the workforce composition. I also find that Democratic governors cause a reduction in the racial earnings gap between Black and White workers through an increase in the annual hours worked by Blacks relative to Whites.

I. INTRODUCTION

Politicians and political parties play a crucial role in the economy. The common perception is that Democrats favor pro-labor policies, and are more averse to income inequality than Republicans. This paper evaluates the veracity of such claims at the U.S. state level by estimating the causal impact of the partisan identity of U.S. governors (Republican vs. Democratic) on several labor market outcomes.

Recent work provides evidence that political allegiance plays a role in determining politicians policy choices and voting behavior at the state level of government. Besley and Case (1995) find that Democratic governors are more likely to raise taxes, while Republican governors are less likely to increase the minimum wage. They also find that the joint election of Democrats in the state upper and lower houses and in the governors office has a significant impact on total taxe revenues, total spending, family assistance and workers compensation (Besley and Case, 2003). Building on this, Reed (2006) finds that tax burdens are higher when Democrats control the state legislature relative to Republicans and that the political party of the Governor has little effect after controlling for partisan influences in the state legislature. Lee, Moretti, and Butler (2004) exploit the random variation associated with close U.S. congressional elections in a regression discontinuity design (RDD) to show that party affiliation explains a very large fraction of the variation in congressional voting behavior. Leigh (2008) studies numerous policies and outcomes under Democratic and Republican governors in U.S. states over the period 1941-2002. He finds that Democratic governors tend to preside over lower after-tax inequality (GINI), and prefer a higher minimum wage and lower incarceration rate.

This paper adds to the literature by studying the impact of gubernatorial partisan affiliation on labor market outcomes. It also examines the specific policies through which partisan affiliation may affect labor market outcomes. I match data from gubernatorial elections with data from March Current Population Survey (CPS) supplements from 1977 to 2008. I use an RDD to remove endogeneity concerns related to election outcomes, in order to identify the causal effect of partisanship. This paper has three levels of analysis. First, it studies the impact of gubernatorial partisan affiliation on labor market outcomes: earnings, hours worked, weeks worked, employment and labor force participation. Second, this paper distinguishes between Black and White workers and sheds light on whether the partisan affiliation of governors has an impact on the Black and White earnings gap. Third, I make a link between the results and policies implemented.

The results indicate that Democratic governors are associated with lower individual earnings. I provide evidence that this is driven by a change in the workforce

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composition following an expansion in the employment of workers with low and medium earnings. Blacks are more likely to work and to participate in the labor market under Democratic governors. This compositional change leads to an increase in the annual hours worked of Blacks relative to Whites, and thereby decreases the earnings gap between Blacks and Whites. I find that an increase in public sector employment, (slightly) higher minimum wage, lower incarceration rate, higher state Earned Income Tax Credits (EITC) rate and increased job protection under Democratic governors contribute to the increase in employment of low- and medium-earning workers and/or the increase in Blacks employment[2].

The rest of the paper is organized as follows: section II discusses the power and role of governors, section III presents the methodology used, section IV provides a description of data and descriptive statistics, section V is devoted to results and section VI to robustness checks. Section VII discusses mechanisms and policies to explain the results.

II.   POWER AND ROLE OF GOVERNORS

The U.S. political system allows states to exercise a high degree of autonomy. States can levy taxes, establish license fees, spend tax revenues, regulate businesses and administer the health system and emergency services. The role of the governor at the state level is similar to that of the president at the national level. The governor sets policy, prepares and administers a budget, recommends legislation, signs laws and appoints department heads. The governor heads the executive branch in each state. In some states, the governor has additional roles such as commander-in-chief of the states National Guard and has partial or absolute power to commute or pardon criminal sentences. Governors can veto state bills, which gives them a high level of control over policies[3]. In all but seven states, governors have the power to use a line-item veto on appropriation bills. This gives the governor the authority to delete part of a bill passed by the legislature that involves taxing or spending. All U.S. governors now serve for four-year terms, except in two states (New Hampshire and Vermont, which have two-year terms). In the past, more states had two-year terms. Gubernatorial elections are held in November and the governor takes of-

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[2]Job protection is measured using the Displaced worker survey (DWS). The displaced workers are defined similarly to Neal (1995) and the empirical strategy is described below.

[3]In some states, a governors veto can be overridden by the legislature by a simple, two-thirds or three-fifths majority.

fice the following January. Election years differ from state to state with some overlap.

III. METHODOLOGY

My identification strategy is an RDD to account for the potential endogeneity of election outcomes. It follows the work of Lee (2001, 2008) and is used in papers such as Lee, Moretti, and Butler (2004) and Ferreira and Gyourko (2009, 2011). Endogeneity concerns surrounding election outcomes come from factors such as labor market conditions, voter characteristics, quality of candidates, which party is incumbent, resources available for campaigns, and other unmeasured characteristics of districts and candidates that would bias estimates of the impact of partisan allegiance of governors. These factors can influence who wins the election. Lee (2001, 2008) demonstrates that looking at close electoral races provides quasi-random variation in winners. The argument is that for narrowly decided races, election outcomes are likely to be random as long as the component of the decisive vote is not totally predictable. In this case, Lee argues that one can identify causality.

An RDD also allows for the estimation of the local average treatment effect in a case where randomization is infeasible. It can be done using either parametric or non-parametric estimation. I follow a parametric approach, which allows for straightforward hypothesis testing[4]. I use all elections rather than only those in the vicinity of the discontinuity. The discontinuity is when the margin of victory is at 0%. Positive values indicate that a Democratic governor was elected while negative values indicate that a Republican won.

Specification 1: Main Regression

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\begin{aligned}
Y_{ist} \;=\; & \beta_0 + \beta_1 D_{st} + \beta_2 D_{st} \times Black_{ist} + \beta_3 Black_{ist} \\
& + \beta_4 g_{st} + \beta_5 X_{ist} + \beta_6 Z_{ist} + F(MV_{st}) \\
& + F(MV_{st}) \times (D_{st} + Black_{ist} + D_{st} \times Black_{ist}) + \varepsilon_{ist}
\end{aligned}
\tag{1}
$$

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[4]My specification is similar to Ferreira and Gyourko (2009, 2011), that also use a parametric approach. A comparison of the parametric approach and a specification that uses data only from close elections is presented in Imbens and Lemieux (2008).

Y_{ist} represents the labor market outcome of interest in state s for individual i in year t. I use annual earnings, weekly earnings and hourly wages conditional on having positive earnings and wages. All earnings and wages variables are in real terms. I also look at total hours worked per year, usual hours worked per week and weeks worked per year conditional on working and labor force participation and employment. $Black_{ist}$ represents a dummy for the worker being Black. D_{st} is a dummy variable that takes on a value of one if a Democratic governor is in power in state s and year t. MV_{st} refers to the margin of victory in the last gubernatorial election at or before time t in state s. It is defined as the proportion of votes cast for the winner minus the proportion of votes cast for the candidate who finished second. The value is positive if the Democratic candidate won and negative if he or she lost. The pure party effect, β_1, is estimated controlling for $F(.)$, a third-order polynomial in the vote share, which I interact with whether a Democrat won the gubernatorial race in time t in state s, a Black worker dummy and the interaction of being a Black worker and having a Democratic governor in power[5]. $F(MV_{st}) \times (Black_{ist} + D_{st} \times Black_{ist})$ allows for a different trend for Black workers. X_{ist} refers to individual characteristics and g_{st} refers to state control variables. X_{ist} includes variables such as dummies for education level, marital status, age and gender. Z_{st} includes state fixed effects and year fixed effects, as well as some time-varying state characteristics such as annual state unemployment, annual state real GDP, a dummy for a Democrat controling the state senate, a dummy for a Democrat controling the state house of representatives and a dummy for a Democratic governor being in power during the previous term. I isolate those controls to isolate the impact of partisan affiliation on the labor market of interest. Standard errors are clustered at the state-year level[6]. I focus on Blacks and Whites aged 20 to 55[7]. My coefficients of interest are β_1 and β_2.

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[5]The proper order of the polynomial regression is still open for debate, but Porter (2003) argues that odd polynomial orders have better econometric properties. I also use different functional forms to verify that my conclusions are robust to such changes. I confirm in the robustness section that results are robust to alternative specifications. Results are also robust to running separate regressions for Black and White workers.

[6]Results are robust to alternative clustering: state-term or state-decade. I prefer state-year clustering since I am using annual CPS data with a different sample every year, and election years differ from state to state.

[7]Results are robust to the use of different age groups (18 to 64 by example). I focus here on Blacks and Whites but the conclusion remains if I include other minorities in the sample and replace the Black dummy with a Minority dummy.

IV. DATA AND DESCRIPTIVE STATISTICS

IV.A DATA

Data are drawn from various sources.

Gubernatorial Elections Data:

Gubernatorial elections data comes from two main sources. Elections data prior to 1990 uses the ICPSR 7757 (1995) files called Candidate and Constituency Statistics of Elections in the United States, 1788-1990. Data for 1990 and later comes from the Atlas of U.S. Presidential Elections (2011)[8]. Only elections where either a Democrat or a Republican won are included[9]. All states are included. Variables of interests taken from these sources are the party of the winner and the margin of victory.

Labor Market and Individual Characteristics Data:

The March Current Population Survey (CPS) provides a large sample size of workers and individual characteristics such as age, education, race and marital status. I use data from 1978 to 2009, which represents income years 1977 to 2008. To circumvent the top coding of income variables in the CPS, I use data from Larimore et al. (2008). I replace top-coded income variables with consistent mean-cell data estimated by Larimore et al. The state identifier available post-1977 in CPS data allows for the matching of gubernatorial election data to the CPS.

Other Controls:

Some additional state characteristics are added, such as unemployment and GDP. Annual state unemployment is taken from the U.S. Bureau of Labor Statistics (BLS) and annual state GDP is taken from the U.S. Bureau of Economic Analysis (BEA). State senate elections, state house elections and population data are taken from University of Kentucky Center of Poverty Research (UKCPR) (2011) for 1980 to 2010, and Andrew Leigh data (2008) for 1977 to 1980.

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[8]I double-checked data using official sources whenever possible (such as state legislature websites and Council of State Governments data) and corrected when appropriate.

[9]There are a few cases where there is special appointment within a term and there is a change of governor (for example, if a governor dies). I include observations where the new governor is from the same party. However, if the special appointment within a term changes the party in power, I drop these observations from my regressions because I do not have the relevant margin of victory.

IV.B DESCRIPTIVE STATISTICS

For the entire 32 years of my sample, Republicans have governed 730 times, while Democratic governors governed 836 times, where one time means one year in one state. Democrats were more often in power in earlier years (516 Democratic governors versus 317 Republican from 1977 to 1993), while Republicans were more often in power in recent years (413 Republicans versus 320 for Democrats between 1994 and 2008)[10] .

[*TABLE* 1*A AND TABLE* 1*B*]

Table 1A and 1B present descriptive statistics for states where election results are close, within 5% or 10% margin of victory. Table 1A and Table 1B indicate that states close to the discontinuity are similar along a number of dimensions: the proportion of Black people in the population, the proportion of population for whom the highest level of study completed is elementary school, the proportion of population for whom the highest level of education is some high school education or a high school diploma, the proportion of population for whom the highest level of study is some college, the proportion of population with a college degree or more studies, the proportion of population aged less than 20, the proportion of population aged more than 55, and the proportion of population aged 20 to 55. This suggests that the key underlying assumption of the RDD estimates, which is that states where a Democratic governor barely won are similar to states where a Republican barely won, is satisfied. I later use these variables as dependent variables when I examine robustness. Table 2A in Appendix A presents mean outcomes and standard deviations for key variables.

IV.C GRAPHICAL EVIDENCE

Figures A to D explore the discontinuity at 0% when a Democratic governor barely wins over a Republican for aggregate data. Figure A presents log annual earnings and Figure B presents the log annual earnings gap between Whites and Blacks. The White and Black earnings gap is calculated by subtracting mean Black earnings from mean White earnings. Figure C presents the proportion of Whites and Blacks employed. Figure D presents the hours worked by White and Black workers.

Each dot in the panels corresponds to the average outcome that follows election

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[10]As mentioned above, I exclude in my sample cases when an independent governor won or when there is a death within a term and the party in power changes.

t, grouped by margin of victory intervals. The solid lines in the figures represent the predicted values from the cubic polynomial fit without covariates. The horizontal axis is the margin of victory in % and the vertical axis is the outcome of interest. Graphical evidence suggests that a decrease in average earnings for Whites and in the White and Black earnings gap occurs at the discontinuity. It also suggests that there is a higher proportion of Blacks who work under Democratic governors and that they are working more hours. I estimate these effects precisely in the next section, using controls listed above to isolate the effect of partisan allegiance of governors on labor market outcomes.

[*FIGURES A to D*]

V.   MAIN RESULTS

Tables 2, 3, and 4 present results from the estimation of the baseline specification (1) for the variables Democratic governor, Democratic governor $\times$ Black, and Black, respectively. β_1 and β_2 are the coefficients of interest. β_3 presents the pure effect of being a Black worker on the labor market outcomes of interest. β_2 and β_3 together show the impact of a Democratic governor on Blacks. Column 1 presents results for all Black and White men and women, and columns 2 and 3 present results for men and women separately.

V.A   EARNINGS (CONDITIONAL ON WORKING)

Table 2 presents results when the dependant variables are real annual earnings, real weekly earnings and real hourly wages[11]. The results indicate that under a Democratic regime, annual earnings, weekly earnings and hourly earnings are lower

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[11]Tables 1B, 2B and 3B in Appendix B present results for annual and weekly earnings and hourly wages. Each column adds additional controls. Column 1 present results with controls for state and year fixed effects. Column 2 also controls for each states annual GDP and unemployment. Column 3 adds controls for individual characteristics and column 4 adds the $F(MV_{st}) \times (D_{st} + Black_{ist} + D_{st} \times Black_{ist})$ and $D_{st} \times Black_{ist}$ interactions. Column 5 adds controls for actions by other levels of government, and a dummy for a Democratic governor being in power during the previous term. Column 5 is a replication of Table 2 in the text. Column 6 adds more time-varying state characteristics such as population, proportion of the population that is Black, proportion of the population that has graduated college, proportion of the population that has a graduate degree, and the proportion of the population that has not attended high school. The impact of Democratic governors is robust across specifications for all three measures of earnings.

on average, and that this decrease is larger for men than for women. Coefficients for men, which are -2.22% for annual earnings, -1.97% for weekly earnings and -1.49% for hourly wages, are statistically significant at the 1% level for all measures of earnings and wages. Coefficients for females are -1.43% for annual earnings, -1.77% for weekly earnings, and -1.46% for hourly wages. Weekly earnings and hourly wages are significant at the 5% level for women, but annual earnings are not.

[*TABLE* 2]

Table 2 also provides evidence that partisan affiliation plays a role in the Black and White earnings gap. Democratic governors have a positive impact on Blacks earnings relative to Whites earnings. The impact is 5.77% for men and 5.03% for men and women combined. These effects are both statistically significant. The coefficient for women is positive, but not statistically significant at the 5% level. The Black $\times$ Democratic governor interactions which represent the impact of Democratic governors on Black workers are positive but not significant for weekly earnings and hourly wages. There is a decrease in the annual earnings gap between Blacks and Whites, but not in weekly earnings and hourly wages. This suggests there is an increase in hours worked and employment of Black workers under Democratic governors. This is indeed confirmed in Table 3 and 4.

V.B   TOTAL HOURS, WEEKS AND USUAL HOURS WORKED

Table 3 presents results for the following dependent variables: total hours worked per year, weeks worked per year and usual hours per week. This section evaluates how much more or less an individual works when a Democrat is in power, conditional on that individual working. Democratic governors do not have a significant impact on the intensive margins for Whites (except for usual hours worked). However, Blacks increase their hours worked more relative to Whites under a Democratic regime than a Republican one. On average, Black men increase their hours worked per year (4.66%) relative to White men under Democratic governors. They also increase their weeks worked (2.80%) and hours worked per week (1.85%). All results are statistically significant at the 5% level. Results for Black women are less pronounced. Only their weeks worked per year are statistically significantly increased relative to Whites under a Democratic governor (2.88%).

[*TABLE* 3 *AND TABLE* 4]

V.c LABOR MARKET PARTICIPATION (IN LABOR FORCE AND EMPLOYMENT)

Table 4 shows results when the dependant variables measure labor force participation and employment. Coefficients for β_1, β_2 and β_3 of specification (1) are estimated using a linear probability model[12]. Table 4 shows that the political party of the governor has an impact on Black labor force participation and employment, especially for Black women. The impact of Democratic governors on labor force participation and being employed for Black women are 3.29% and 3.62% respectively (and significant at 1%). The respective coefficient for men is positive but not significant.

VI.   VALIDITY, ROBUSTNESS CHECKS AND EXPLORATIONS

VI.a MODEL SPECIFICATION

I perform a number of robustness checks to ensure that my results are robust. I begin by investigating the underlying key assumption of the RDD approach, which is that states where a Democratic governor barely wins are similar to states where a Republican barely wins. I verify and confirm that states close to the discontinuity are similar along a number of dimensions. As in Ferreira and Gyourko (2009), I estimate regression discontinuity specifications using variables for state characteristics as dependent variables. I use aggregate data and an aggregate version of specification (1) without the individual characteristics. I find that the coefficient associated with a Democratic governor is never significant for these outcome variables, which indicates that states are not statistically significantly different near the discontinuity. The RDD coefficients (with standard errors in brackets) for a Democratic governor are: proportion of the population that is Black [0.1352 (0.1229)], proportion of the population for whom the highest level of study is elementary education [-0.16325 (0.2196)], proportion of the population for whom the highest level of study is some high school or a high school diploma [0.2633 (0.2087)] , proportion of the population for whom the highest level of study is some college [-0.0675 (0.1305)], proportion of the population with a college degree or more studies [-0.0325 (0.2082)], proportion of the population aged less than 20 [0.1658 (0.1789)], proportion of the population

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[12]With interactions terms, the linear probability model specification has better statistical properties than a probit. Results are similar using the marginal effect of the probit.

aged more than 55 [-0.1839 (0.1886)], and proportion of the population aged 20 to 55 [0.0075 (0.1783)]. Coefficients and standard errors are multiplied by 100. Descriptive statistics are also presented in Table 1.

Results are also robust to alternative polynomial forms. As mentioned above, the optimal polynomial order is still up for debate. Results and conclusions are robust to a 1st-, 2nd- or 4th-order polynomial. Results are also robust to running separate regressions for Black and White workers. Another test performed is to limit the maximal margin of victory and drop elections that are far from the discontinuity. Results, significance and conclusions remain if I only keep elections where the margin of victory is less than 40%.

VI.B POSSIBLE HETEROGENEITY OF PARTISAN ALLEGIANCE

To ensure results are stable, I also estimate baseline regressions (using the specification from Table 2) for different samples of years and states and find that while the coefficients (slightly) vary depending on years and states used, the main effects, significance and conclusions remain. One interesting subsample is non-southern states. Democrats in the south are arguably more conservative and therefore more similar to Republicans (Alt and Lowry, 2000). Therefore, one might expect that the effects of a Democratic governor relative to a Republican would be more marked in non-southern states. I find that for non-southern states, the negative effect of Democratic governors on earnings is stronger and the positive impact of Democratic governor on labour market outcomes for Black people is more pronounced[13]. One other interesting subsample for robustness is restricting the sample to states that frequently elect both Democrats and Republicans (as opposed to states that consistently elect a governor from a single party)[14]. Results and conclusions are robust to focusing on these states only.

VI.C POSSIBLE CONFOUNDING VARIABLES AND FACTORS

Another test is to include more state- and time-varying characteristics to isolate the impact of the gubernatorial election. Results are robust to the addition of controls for

[13]Southern states are defined using the Census classification: Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia.

[14]I keep in this subsample states where Democrats and Republicans were each in power at least 30% of the time over the years.

population, proportion of the population that is Black, proportion of the population that graduated college, proportion of the population with a graduate degree, and proportion of the population that did not attend high school. Results are also robust to the inclusion of dummies for the governor being a woman or from a minority ethnic group. They are also robust to controlling for state voter ideology using scores from Carroll et al. for the state's legislators in a given year[15]. Results are also robust to the inclusion of region $\times$ time dummies for the following regions (as defined in the CPS): Northeast, Midwest, South and West. Results are also robust to the exclusion of the first year a governor is in power, to remove potential lags in policy. To further investigate if my results are not due to long-term trends, I include a control for average earnings during the last term. Results and conclusions remain[16]. Results and interpretation are similar if the sample is restricted to full-time employees or if I include major occupation and industry dummies.

Overall, results are very robust to alternative specifications and a rich set of time-varying state characteristics.

VII.   WORKFORCE CHANGES, CHANNELS AND POLICIES

This paper has established that, on average, Democratic governors have differing effects on the labor market than Republicans. When Democratic governors are in power, the following three effects take place: i) a decrease in average earnings, ii) a decrease in the earnings gap between White and Black workers, and iii) an increase in Blacks employment.

In this section, I examine the mechanisms through which governors exercise their influence over the labor market. I provide evidence that under Democratic governors, there is an increase of low- and medium-earnings workers and that this change in workforce composition is a main factor explaining the decrease in earnings. I then review potential policies through which the increase in low- and medium- earnings workers and the increase in Blacks employment happens.

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[15]Scores from Carroll et al. are downloaded from http://voteview.com/dwnomin.htm (updated February 2011). I drop all legislators except Democrats and Republicans, and use the 1st dimension coordinate, which they describe as measuring liberalism or conservatism.

[16]I have missing values in some states in earlier years, since state variables in CPS data are available starting in 1977. (I reran the specification from Table 2 on this sample without a variable for average earnings in the last term, and the results and conclusions remained.)

VII.A IMPACT ON LABOR FORCE COMPOSITION

To study the impact of partisan allegiance on workforce composition, I first divide workers into three categories: low earnings, medium earnings and high earnings wrokers. Low-earnings workers are defined as those whose earnings are below the 35th percentile, measured in 1977 real earnings (at the national level). Medium-earnings workers are between 35th and 65th percentiles, and high-earnings workers are those above the 65th percentile[17]. Each worker in the sample is divided in those three categories. I use this approximation to study the impact of Democratic governors on the workforce composition relative to Republicans. It is a simple but efficient way to cut the data to see if partisan affiliation alters labor force composition. The objective is to investigate whether political parties affect the probability of being a low-, medium- or high-earnings worker. I do the exercise based on annual earnings[18].

[*TABLE* 5]

Table 5 shows that the probability of being a low-earnings worker increases (and, for men only, the probability of being a medium- earnings worker increases) when Democratic governors are in power, while the probability of being a high- earnings worker decreases. However, one cannot determine from Table 5 if this effect is caused by an entry of low-earnings workers, high-earnings workers transitioning to lower earnings, or a combination of these two factors.

I use the log of the number of workers in each of the three earnings categories as dependant variables and a modified version of specification (1) to investigate which explanation is most likely[19]. The results are provided in Table 6, which suggests that the effect is caused by an increase in the number of low- earnings workers. Moreover, policies in the literature and studied below suggest labor force entry by low- and medium- earnings workers.

[*TABLE* 6]

Another way to study the labor force participation and employment probability is to look at propensity to work by education categories. In Table 7, I study the probability

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[17]Results are robust to alternative definitions of low- earnings, medium- earnings and high-earnings.

[18]Results are similar for hourly wage.

[19]I use an aggregate version of specification (1) without the $F(MV_{st}) \times (Dst + Black_{ist} + D_{st} \times Black_{ist})$ and $D_{st} \times Black_{ist}$ interactions, since the entry of low- earnings workers into the labor market is the likely channel through which the effect on Black extensive margins occurs.

of employment and the probability of being in the labor force (dummy 0-1) of people with high school diploma or less versus other levels of education using an interaction term[20]. Table 7 shows that under Democratic governors, less educated worker work more respective to more educated worker. Certainly, it is possible that less educated workers enter the labor market and earn a lot, but we know that it is unlikely that newcomer earn more than average. Table 7 also points to the same conclusion as above.

[*TABLE* 7]

VII.b   Including the Share of Low- and Medium- Earnings Workers in the Earnings Regression

The above section shows that under Democratic governors, there are changes in workforce composition and there are more low- and medium- earnings workers. An important next step is to determine whether this change is driving the decrease in earnings under democratic governors.

To investigate if the changes in the labor force composition are a main factor explaining the results, I do a simple test. I include variables for the share of low-earnings workers and medium-earnings workers as additional controls. I run regressions for annual earnings, weekly earnings and hourly wages using a modification of specification (1)[21]. Results presented in Table 8 shows that the impact of Democratic governors on earnings almost disappears, completely when controlling for labor force composition, such that results are no longer statistically significant. Thus, a change in labor force composition is a key factor explaining the above results.

[*TABLE* 8]

VII.c   Policies and Channels

Overall, the evidence points to the partisan allegiance of governors having an impact on the composition of the labor force by increasing low- and medium- earnings

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[20]I use specification (1) without the $F(MV_{st}) \times (Dst + Black_{ist} + D_{st} \times Black_{ist})$ and $D_{st} \times Black_{ist}$ interactions. I put an interaction between having a high school diploma or less education and a Democrat being the governor.

[21]I once again use specification (1) without the $F(MV_{st}) \times (Dst + Black_{ist} + D_{st} \times Black_{ist})$ and $D_{st} \times Black_{ist}$ interactions.

workers. This in turn results in a decrease in average earnings. The results also show an increase in the employment of Blacks. In this section, I examine what policies may lead to these results.

The above findings are likely the result of a combination of policies. In particular, I find that Democratic governors tend to be associated with higher public-sector employment, increased job protection as defined using the Displaced worker survey, (slightly) higher minimum wages, lower incarceration rates, and higher state earned income tax credit (EITC) rates, and that these policies contribute to the increase in the number of low- and medium-earnings workers and/or the increase in the Blacks intensive margins. However, I do not find that taxation (both corporate and personal) and business sector dynamics (firm entry rate, firm exit rate, firm job creation rate, firm job destruction rate, firm net job creation rate) to be affected by partisan allegiance and therefore do not play a role in explaining the above results. Table 9 presents policies considered and summarized which policy is affected by partisan allegiance of the governor. Detailed estimates are contained in Appendices C through G.

[*TABLE* 9]

I find that Democratic governors have a small but statistically significant impact on the probability that a woman works in the public sector (0.42%) and the probability that any worker works in the public sector (0.23%). These jobs tend to be in the low- and medium- earnings categories. In other words, Democratic governors increase the proportion of low- and medium- earnings workers by increasing employment in the public sector.

Democratic governors are also found to affect worker displacement. Using the Displaced Worker Survey (January CPS) to investigate whether Democratic governors affect the probability of being displaced, I find that Black men are less likely to be a displaced worker under Democratic Governors (−2.11% and statistically significant at the 5% level)[22]. This suggests an increase in the intensive margins of Black men. Moreover, under Democratic governors, displaced workers are less likely to be low-earnings workers and more likely to be high-earnings workers[23]. These findings contribute to the increase in the share of low- and medium-earnings

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[22]The Displaced Worker Survey has the same control variables as March CPS and the data is available every two years from 1984 to 2008. The definition of displaced worker used here is similar to Neal (1995).

[23]Leigh (2008) calls this a policy and economic conditions variable, which represent intermediate outcomes resulting from policy choices and economic conditions (i.e. a function of both the supply of, and demand for, welfare).

workers in the labor market.

The literature suggests that Democratic governors are associated with (slightly) higher minimum wages (Besley and Case, 1995 and Leigh, 2008) and lower incarceration rates (Leigh, 2008). Both measures could increase the labor supply of low-earnings workers. I find that, by adding state minimum wages to specification (1), minimum wage has a positive and significant impact on total hours worked for low-earnings workers, and has a significant positive impact on labor force participation and employment for low-earnings workers. Doing the same exercise with state incarceration rates, I find that a higher incarceration rate has a significant negative impact on labor force participation and employment for low-earnings workers. Neither the minimum wage nor the incarceration rates affect overall employment. My results for the minimum wage are in accordance with studies such as Card and Krueger (1994, 2000). Moreover, a higher proportion of Black workers than White workers earn minimum wage, which helps explain the decrease in the earnings gap between Blacks and Whites.

State earned income tax credits (EITC) can also help explain my results. EITC is a refundable tax credit primarily for individuals and couples with children. The indirect effect of the policy is to increase employment, mostly of low- and medium-earnings workers, particularly women. I find that Democratic governors increase the probability that a state offers an EITC and are also associated with higher levels of EITC[24]. Adding state EITC rates to specification (1) shows that state EITC rates have a positive significant impact on total hours worked, labor force participation and employment for low-earnings women. Moreover, state EITC rates do not reduce overall employment.

I also investigate other channels, such as taxation (both corporate and personal) and business dynamics, which could affect workforce composition. I examine whether the decrease in earnings found in previous tables remains after including income taxes using the NBER Taxsim simulator. As in Reed (2006) and Leigh (2008), I do not find that the partisan affiliation of governors has an impact on personal taxation or on the progressivity of the tax system. Taxation is not a factor explaining the increase of low- and medium-earnings workers[25]. To study business dynamics, I use the following outcome variables provided by the U.S. Census Bureaus Business

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[24]I focus on 1990 to 2008, when several states implemented an EITC. Data about state EITC are taken from UKCPR. More details about state EITC are available at http://www.irs.gov/individuals/article/0,,id=177866,00.html.

[25]I use family earnings because of the joint filing for married couples in the U.S. tax system. After-tax income is obtained using the NBER TAXSIM simulator and before-tax income and certain tax credits are obtained from the CPS. I use code provided by James P. Ziliak to incorporate tax credits variables from the CPS into the NBER TAXSIM simulator. The CPS does not have information on

Dynamics Statistics: establishment entry rate, establishment exit rate, firms job creation rate, firms job destruction rate, and firms net job creation rate[26]. I do not find that business dynamics are affected by gubernatorial political allegiance. Using the top corporate tax rate as an outcome variable, I do not find that the partisan allegiance of the governor has an impact on corporate taxation.

VIII. CONCLUSION

This paper is a comprehensive study of the causal impact of partisan allegiance of U.S. governors on labor market outcomes using a regression discontinuity approach to remove potential endogeneity of election results. Results indicate that the partisan allegiance of U.S. governors affects earnings and that Democratic governors are associated with lower individual earnings. Moreover, results presented in this paper provide evidence that Democratic governors reduce the average earnings gap between Black and White workers. Blacks also increase their labor supply more relative to Whites under Democratic governors. I provide evidence that there is an increase of low- and medium-earnings workers under Democratic governors and that this change in the workforce composition is the main factor explaining the results. Results are robust to alternative specifications and a rich set of time-varying state characteristics. Although this paper improves the understanding of the importance of partisan allegiance at the state level, more work is needed in this area to understand the full extent of the role of political parties. I have provided evidence of a short-term increase of low- and medium-earnings workers under Democratic governors. Subsequent research should investigate if this increase in participation has long-term benefits for these groups, and whether there are effects on variables such as returns to education and union wage premiums.

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certain inputs for the TAXSIM program, such as annual rental payments, child care expenses, and other itemized deductions. These values are set to zero when calculating tax liability. The other variables of the TAXSIM simulator are found in the CPS. Results of Table 1F are similar if credits from the CPS are not included in the TAXSIM simulation.

[26] All variables are available for all of my sample years.

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Figures

Figure A: Partisan identity and Annual Earnings (A)
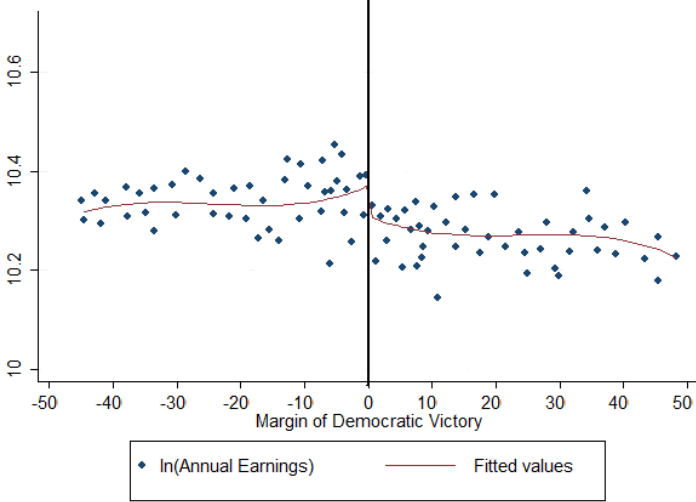
Figure B: Partisan identity and the White and Black annual earnings gap
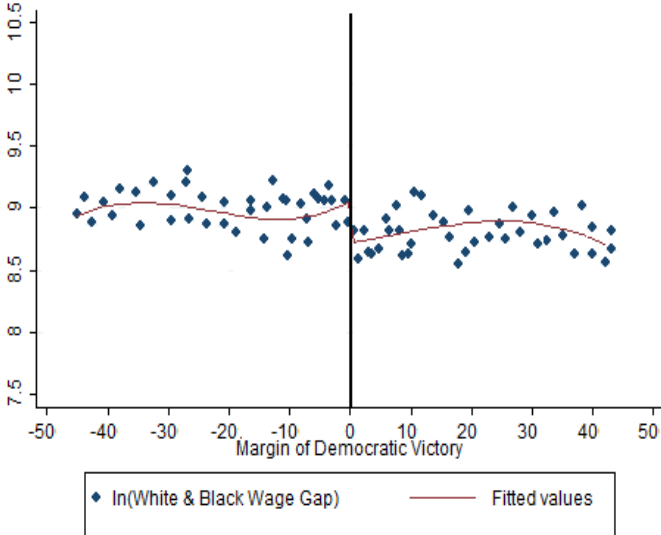
Figure C: Partisan identity and the proportion of Whites (left) and Blacks (right) who work
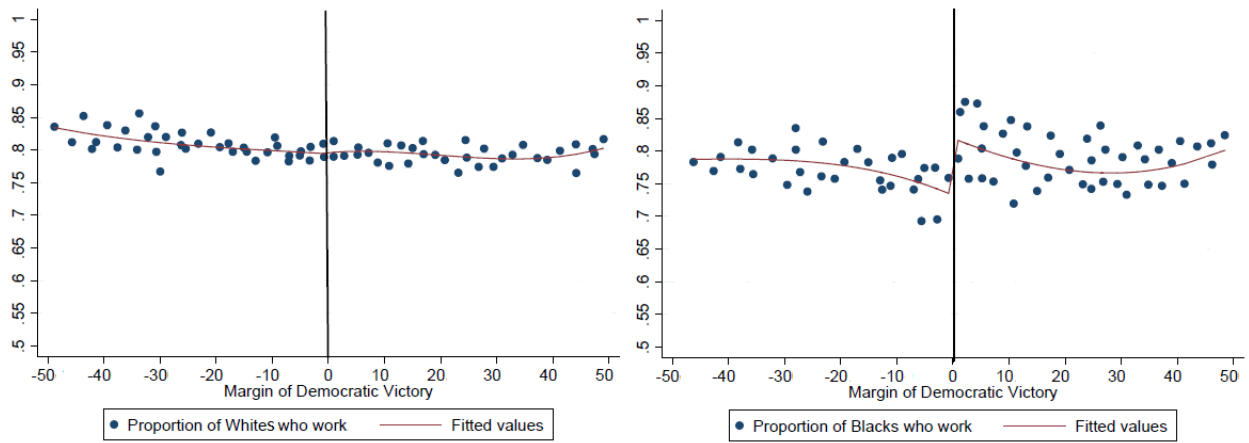
Figure D: Partisan identity and total hours worked per year for Whites (left) and Blacks (right)
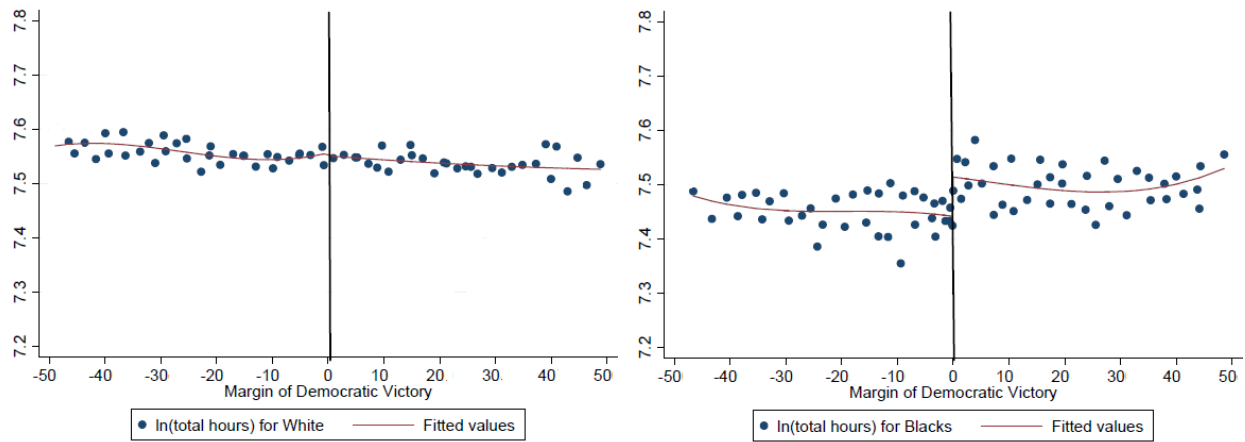
Tables

Table 1

Table 1A - Descriptive statistics of selected variables for states close to discontinuity

		Black	Elementary	Some HS & HS	Some College
Margin of victory less 5 %	**Republican**	10.03	28.24	37.71	11.75
	Sd	(0.6281)	(0.2922)	(0.3751)	(0.2873)
	Democrat	9.95	27.79	37.71	11.76
	Sd	(0.8156)	(0.3060)	(0.3185)	(0.3031)
Margin of victory less 10 %	**Republican**	9.92	28.49	38.14	11.65
	Sd	(0.5144)	(0.2044)	(0.2739)	(0.2183)
	Democrat	9.59	28.13	38.01	11.74
	Sd	(0.5421)	(0.2316)	(0.2240)	(0.2199)

Mean and standard deviation of the mean for the proportion of the population close to the discontinuity that is Black, and by highest level of education completed (elementary school, some high school or a high-school diploma, and some college). Coefficients and standard errors are multiplied by 100.

Table 1B - Descriptive statistics of selected variables for states close to discontinuity

		College & Grad School	Age<20	Age>55	Age 20 to 55
Margin Victory ≤ 5 %	**Republican**	22.30	30.82	21.22	50.51
	sd	(0.3643)	(0.2369)	(0.2046)	(0.1596)
	Democrat	22.08	31.12	21.00	50.43
	sd	(0.2885)	(0.2547)	(0.2891)	(0.1971)
Margin Victory ≤ 10 %	**Republican**	21.72	31.03	21.32	50.18
	sd	(0.2474)	(0.1696)	(0.1555)	(0.1167)
	Democrat	22.12	31.21	21.00	50.37
	sd	(0.2195)	(0.1835)	(0.1898)	(0.1415)

Mean and standard deviation of the mean for proportion of population close to the discontinuity with at least a college degree, of age 20 or less, aged more than 55, and aged 20 to 55. Coefficients and standard errors are multiplied by 100.

Table 2 - Coefficient estimates for annual and weekly earnings and hourly wages

Earnings	Variables	All	s.e.	Men	s.e.	Women	s.e.
Annual	Democrat	-1.96**	(0.6050)	-2.22**	(0.6916)	-1.43	(0.8927)
	Democrat × Black	5.03**	(1.8880)	5.77*	(2.3489)	2.80	(2.5085)
	Black	-15.57**	(1.2034)	-29.18**	(1.4591)	-5.01**	(1.6372)
Weekly	Democrat	-1.95**	(0.5164)	-1.97**	(0.6219)	-1.77**	(0.6819)
	Democrat × Black	2.00	(1.4696)	2.97	(1.8236)	-0.08	(1.9456)
	Black	-9.82**	(0.9325)	-20.49**	(1.1087)	-1.32	(1.3089)
Hourly	Democrat	-1.53**	(0.4629)	-1.49**	(0.5619)	-1.46*	(0.5917)
	Democrat × Black	1.00	(1.2693)	1.11	(1.6993)	0.10	(1.5777)
	Black	-9.35**	(0.8290)	-15.30**	(1.0355)	-4.58**	(1.0573)

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. Controls variables include highest level of education, marital status, age, age^2, age^3, age^4, a female dummy, state fixed effect, year fixed effect and time-varying characteristics such as annual state unemployment, annual state real GDP, a dummy for Democrat control of the state senate, a dummy for Democrat control of the state house and a dummy for a Democratic governor being in power during the previous term. Outcome variables are expressed in log and coefficients and standard errors are multiplied by 100.*

Table 3 - Coefficient estimates for total hours worked, weeks worked and usual hours

Intensive	Variables	All	s.e.	Men	s.e.	Women	s.e.
Total hours worked	Democrat	-0.44	(0.4162)	-0.74	(0.4293)	0.02	(0.6424)
	Democrat × Black	4.03**	(1.2579)	4.66**	(1.6275)	2.70	(1.7703)
	Black	-6.22**	(0.8399)	-13.87**	(1.0494)	-0.43	(1.1733)
Weeks worked	Democrat	-0.02	(0.3213)	-0.26	(0.3352)	0.34	(0.4751)
	Democrat × Black	3.03**	(0.9733)	2.80*	(1.3114)	2.88*	(1.3362)
	Black	-5.75**	(0.6643)	-8.68**	(0.8429)	-3.69**	(0.9311)
Usual hours	Democrat	-0.42*	(0.2074)	-0.48*	(0.2227)	-0.31	(0.3303)
	Democrat × Black	1.00	(0.5441)	1.85**	(0.6615)	-0.18	(0.9132)
	Black	-0.47	(0.3451)	-5.19**	(0.4589)	3.26**	(0.6077)

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The controls are the same as in Table 2. Outcome variables are expressed in log form and coefficients and standard errors are multiplied by 100.*

Table 4 - **Coefficient estimates for the probability of being in the labor force and employed**

Extensive	Variables	All	s.e.	Men	s.e.	Women	s.e.
In labor force	**Democrat**	-0.37	(0.2146)	-0.10	(0.1818)	-0.62	(0.3516)
	Democrat × Black	1.97*	(0.8226)	0.68	(1.0313)	3.29**	(1.0392)
	Black	-3.83**	(0.5659)	-7.09**	(0.6248)	-2.13**	(0.7686)
Employed	**Democrat**	0.01	(0.2753)	0.50	(0.3022)	-0.46	(0.3839)
	Democrat × Black	2.70**	(1.0125)	1.83	(1.3009)	3.62**	(1.1460)
	Black	-4.62**	(0.7129)	-7.73**	(0.8344)	-3.02**	(0.8671)

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The controls are the same as in Table 2. The in labor force variable is 1 if an individual is in the labor force, and is 0 otherwise. The employed variable is 1 if an individual is employed, and is 0 if the individual is unemployed or out of the labor force. Estimates are generated using a linear probability model. Coefficients and standard errors are multiplied by 100.*

Table 5 - **Propensity of being a low-, medium- or high-earnings worker**

Outcomes	Variables	All	s.e.	Men	s.e.	Women	s.e.
Low-earnings workers	**Democrat**	0.76*	(0.3012)	0.38	(0.3196)	1.10*	(0.4439)
Below 35th percentile	**Democrat*Black**	-0.17	(1.0598)	-0.47	(1.2245)	0.50	(1.3330)
of 1977 annual earnings	**Black**	4.56**	(0.6788)	8.84**	(0.7329)	1.40	(0.8669)
Medium-earnings workers	**Democrat**	0.26	(0.2997)	1.15**	(0.3761)	-0.77	(0.4410)
35th to 65th percentiles	**Democrat*Black**	-1.08	(0.9871)	-1.66	(1.2797)	0.01	(1.2201)
of 1977 annual earnings	**Black**	2.50**	(0.6482)	3.95**	(0.7684)	0.91	(0.8357)
High-earnings workers	**Democrat**	-1.03**	(0.2724)	-1.54**	(0.3818)	-0.35	(0.3165)
Above 65th percentile	**Democrat*Black**	1.28	(0.6969)	2.12	(0.9985)	-0.46	(0.9038)
of 1977 annual earnings	**Black**	-7.06**	(0.4777)	-12.77**	(0.6635)	-2.33**	(0.6017)

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The controls are the same as in Table 2. Estimates are generated using a linear probability model. Coefficients and standard errors are multiplied by 100.*

Table 6 – Coefficient estimates for number of workers in each category

Number of low-earnings workers			
Below 35th percentile of 1977 annual earnings	**Democrat**	2.13*	(1.0464)
Number of medium-earnings workers			
35th to 65th percentiles of 1977 annual earnings	**Democrat**	0.64	(1.1153)
Number of high-earnings workers			
Above 65th percentile of 1977 annual earnings	**Democrat**	-0.46	(1.1412)

Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. Estimates are generated using an aggregate version of specification (1) without the $F(\mathrm{MV_{st}}) \times (\mathrm{Black_{ist}} + \mathrm{D_{st}} \times \mathrm{Black_{ist}})$ and $\mathrm{D_{st}} \times \mathrm{Black_{ist}}$ interactions. Coefficients and standard errors are multiplied by 100.

Table 7 - Regression for probability of being in labor force and employed

Extensive	Variables	All	Std	Men	Std	Women	Std
In Labor force	**Democrat**	-0.51*	(0.2337)	-0.37	(0.2649)	-0.76*	(0.3313)
	Democrat*(<=high school diploma)	0.73**	(0.2367)	1.13**	(0.2428)	0.61	(0.3117)
Employed	**Democrat**	-0.72**	(0.2796)	-0.46	(0.3255)	-1.10**	(0.3851)
	Democrat*(<=high school diploma)	0.66*	(0.2752)	1.10**	(0.2953)	0.51	(0.3271)

Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. Estimates are generated using a regression of equation (1) without the $F(\mathrm{MV_{st}}) \times (\mathrm{D_{st}} + \mathrm{Black_{ist}} + \mathrm{D_{st}} \times \mathrm{Black_{ist}})$ and $\mathrm{D_{st}} \times \mathrm{Black_{ist}}$ interactions for annual and weekly earnings and hourly wages and controls for the share of low- and medium-earnings workers. Additional controls are the same as in Table 2. Outcome variables are expressed in log form and coefficients and standard errors are multiplied by 100.

Table 8 - **Coefficient estimates for annual, weekly and hourly earnings including share of workers.**

Earnings	Variable	All	s.e.	Men	s.e.	Women	s.e.
Annual	**Democrat**	-0.39	(0.5326)	-0.61	(0.6446)	-0.18	(0.8147)
Weekly	**Democrat**	-0.74	(0.4094)	-0.60	(0.5307)	-0.94	(0.5808)
Hourly	**Democrat**	-0.53	(0.3660)	-0.38	(0.4711)	-0.72	(0.5154)
Includes the share of low- and medium-earnings workers		**yes**		**yes**		**yes**	

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. Estimates are generated using a regression of equation (1) without the $F(MV_{st}) \times (D_{st} + Black_{ist} + D_{st} \times Black_{ist})$ and $D_{st} \times Black_{ist}$ interactions for annual and weekly earnings and hourly wages and controls for the share of low- and medium-earnings workers. Additional controls are the same as in Table 2. Outcome variables are expressed in log form and coefficients and standard errors are multiplied by 100.*

Table 9 **- Summary Tables of policies**

Policy	Partisan Allegiance has significan impact?	Impact of Democrats
State Public Sector	Yes	Increse employment in public sector
Business Sector (via Business Dynamics Statistics)	No	-
Job Protection (via Displaced Worker Survey)	Yes	Black are less displaced Displaced worker are less low earners
Taxation		
Corporate	No	-
Household		-
Minimun Wage	Yes	Sligthly higher
Incarceration Rate	Yes	Lower
State EITC	Yes	More frequent and higher

Appendix - Political Parties & Labor Market Outcomes

Appendix A - Descriptive Statistics

Table A1 - Frequency in power

All Years - 1977 to 2008	Frequency	%
Republican Governors	730	46.62%
Democratic Governors	836	53.38%

1977 to 1993	Frequency	%
Republican Governors	317	38.06%
Democratic Governors	516	61.94%

1994 to 2008	Frequency	%
Republican Governors	413	56.34%
Democratic Governors	320	43.66%

Frequency each political party is in power in the sample.

Table A2 - Mean values of key variables

Categories	Variables	Mean	Sd
Outcomes	**ln(Annual Earnings)**	9.8758	(1.1133)
	ln(Weekly Earnings)	6.1178	(0.8746)
	ln(Hourly Earnings)	2.4817	(0.7556)
	ln(Weeks worked)	3.7580	(0.4976)
	ln(Usual hours)	3.6361	(0.3650)
	ln(Total hours)	7.3941	(0.7004)
Other Elections	**State house democrat**	0.7108	(0.4534)
	State senate democrat	0.5911	(0.4916)
Macro	**ln(Real GDP)**	12.3875	(0.9499)
	ln(unemployment rate)	1.7479	(0.2919)
Characteristics	**Black**	0.1197	(0.3246)
	Female	0.4694	(0.4991)
	Age	36.1501	(9.9853)
Education	**Elementary**	0.0366	(0.1879)
	High School	0.3405	(0.4739)
	Some college	0.1767	(0.3814)
	College	0.2818	(0.4499)
	More than college	0.0824	(0.2749)
Marital status	**Married**	0.5954	(0.4908)
	Separated	0.0276	(0.1639)
	Divorced	0.1012	(0.3016)
	Widowed	0.0100	(0.0996)
	Never married	0.2658	(0.4418)

Appendix B- Earnings & Wages, adding more controls each column

Table B1 - Annual Earnings by step

	Variables	1	s.e.	2	s.e.	3	s.e.	4	s.e.	5	s.e.	6	s.e.
All	Democrat	-2.63**	(0.8964)	-2.04**	(0.7221)	-1.25*	(0.5908)	-1.89**	(0.6139)	-1.96**	(0.605)	-2.09**	(0.6253)
	Democrat × Black	-	-	-	-	-	-	5.1**	(1.8873)	5.03**	(1.888)	4.95**	(1.8915)
	Black	-	-	-	-	-12.02**	(0.3798)	-15.58**	(1.202)	-15.57**	(1.2034)	-15.57**	(1.2088)
Male	Democrat	-3.13**	(1.0897)	-2.41**	(0.8632)	-1.61*	(0.7093)	-2.27**	(0.6955)	-2.22**	(0.6916)	-2.43**	(0.6767)
	Democrat × Black	-	-	-	-	-	-	5.83*	(2.3506)	5.77*	(2.3489)	5.68*	(2.345)
	Black	-	-	-	-	-25.44**	(0.4608)	-29.16**	(1.4562)	-29.18**	(1.4591)	-29.23**	(1.4649)
Female	Democrat	-2.39*	(1.0317)	-2.02*	(0.9743)	-0.78	(0.8378)	-1.20	(0.8992)	-1.43	(0.8927)	-1.36	(0.9188)
	Democrat × Black	-	-	-	-	-	-	2.89	(2.5097)	2.8	(2.5085)	2.76	(2.5096)
	Black	-	-	-	-	-2.86**	(0.4965)	-5.05**	(1.6384)	-5.01**	(1.6372)	-4.93**	(1.6414)

	1	2	3	4	5	6
Fixed effect (state & year)	yes	yes	yes	yes	yes	yes
GDP Unemployment	-	yes	yes	yes	yes	yes
Individual Character.	-	-	yes	yes	yes	yes
Black Interactions	-	-	-	yes	yes	yes
Other Governments	-	-	-	-	yes	yes
More state controls	-	-	-	-	-	yes

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The controls are the same as in Table 2. The outcome variable (annual earnings) is measured in log form. Column 1 presents results with fixed effects for state and year. Column 2 adds controls for annual GDP per state and unemployment. Column 3 controls for individual characteristics and column 4 includes the $F(MV_{st}) \times (D_{st} + Black_{ist} + D_{st} \times Black_{ist})$ and $D_{st} \times Black_{ist}$ interactions. Column 5 adds other government level controls and a dummy for a Democrat being in power last term. Column 6 adds more time-varying state characteristics such as population, proportion of the population that is Black, the proportion of the population that is a college graduate, the proportion of the population with a graduate degree, and the proportion of the population that has completed elementary school.*

Table B2 - Weekly Earnings by step

	Variables	1	s.e.	2	s.e.	3	s.e.	4	s.e.	5	s.e.	6	s.e.
All	Democrat	-2.63**	(0.7343)	-2.17**	(0.6452)	-1.55**	(0.4959)	-1.83**	(0.523)	-1.95**	(0.5164)	-1.67**	(0.5128)
	Democrat × Black	-	-	-	-	-	-	2.08	(1.4694)	2.00	(1.4696)	1.94	(1.4701)
	Black	-	-	-	-	-8.25**	(0.2953)	-9.83**	(0.9309)	-9.82**	(0.9325)	-9.84**	(0.9369)
Male	Democrat	-2.69**	(0.8794)	-2.17**	(0.7846)	-1.58**	(0.6155)	-1.94**	(0.6185)	-1.97**	(0.6219)	-1.81**	(0.5819)
	Democrat × Black	-	-	-	-	-	-	3.03	(1.8253)	2.97	(1.8236)	2.89	(1.8178)
	Black	-	-	-	-	-18.97**	(0.3513)	-20.49**	(1.107)	-20.49**	(1.1087)	-20.55**	(1.1132)
Female	Democrat	-2.84**	(0.8119)	-2.52**	(0.7672)	-1.51*	(0.6254)	-1.54*	(0.6913)	-1.77**	(0.6819)	-1.27	(0.6995)
	Democrat × Black	-	-	-	-	-	-	0.03	(1.9448)	-0.08	(1.9456)	-0.10	(1.9436)
	Black	-	-	-	-	-0.72	(0.3797)	-1.36	(1.308)	-1.32	(1.3089)	-1.3	(1.3096)
Fixed effect (state & year)		yes		yes		yes		yes		yes		yes	
GDP Unemployment		-		yes		yes		yes		yes		yes	
Individual Character.		-		-		yes		yes		yes		yes	
Black Interactions		-		-		-		yes		yes		yes	
Other Governments		-		-		-		-		yes		yes	
More state controls		-		-		-		-		-		yes	

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The controls are the same as in Table 2. The outcome variable (weekly earnings) is measured in log form. Column 1 presents results with fixed effects for state and year. Column 2 adds controls for annual GDP per state and unemployment. Column 3 controls for individual characteristics and column 4 includes the $F(MV_{st}) \times (D_{st} + Black_{ist} + D_{st} \times Black_{ist})$ and $D_{st} \times Black_{ist}$ interactions. Column 5 adds controls for other levels of government and a dummy for a Democrat being in power last term. Column 6 adds more time-varying state characteristics such as population, the proportion of the population that is Black, the proportion of the population that is a college graduate, the proportion of the population with a graduate degree, and the proportion of the population that completed elementary school.*

Table B3- Hourly Wages by step

	Variables	1	s.e.	2	s.e.	3	s.e.	4	s.e.	5	s.e.	6	s.e.
All	Democrat	-2.19**	(0.6305)	-1.83**	(0.5888)	-1.27**	(0.4447)	-1.41**	(0.4679)	-1.53**	(0.4629)	-1.34**	(0.4619)
	Democrat × Black	-	-	-	-	-	-	1.07	(1.270)	1.00	(1.2693)	0.94	(1.2684)
	Black	-	-	-	-	-8.27**	(0.2495)	-9.36**	(0.8278)	-9.35**	(0.829)	-9.35**	(0.8324)
Male	Democrat	-2.13**	(0.7502)	-1.72*	(0.7064)	-1.27*	(0.549)	-1.42*	(0.5583)	-1.49**	(0.5619)	-1.40**	(0.5326)
	Democrat × Black	-	-	-	-	-	-	1.18	(1.6997)	1.11	(1.6993)	1.04	(1.696)
	Black	-	-	-	-	-14.63**	(0.3218)	-15.3**	(1.0344)	-15.3**	(1.0355)	-15.34**	(1.038)
Female	Democrat	-2.39**	(0.6886)	-2.12**	(0.6684)	-1.25*	(0.5477)	-1.28*	(0.5965)	-1.46*	(0.5917)	-1.12	(0.607)
	Democrat × Black	-	-	-	-	-	-	0.19	(1.5781)	0.10	(1.5777)	0.08	(1.5751)
	Black	-	-	-	-	-3.85**	(0.3059)	-4.61**	(1.0563)	-4.58**	(1.0573)	-4.53**	(1.0601)

	1	2	3	4	5	6
Fixed effect (state & year)	yes	yes	yes	yes	yes	yes
GDP Unemployment	-	yes	yes	yes	yes	yes
Individual Character.	-	-	yes	yes	yes	yes
Black Interactions	-	-	-	yes	yes	yes
Other Governments	-	-	-	-	yes	yes
More state controls	-	-	-	-	-	yes

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The controls are the same as in Table 2. The outcome variable (annual wage) is measured in log form. Column 1 presents results with fixed effects for state and year. Column 2 adds controls for annual GDP per state and unemployment. Column 3 controls for individual characteristics and column 4 includes the $F(MV_{st}) \times (D_{st} + Black_{ist} + D_{st} \times Black_{ist})$ and $D_{st} \times Black_{ist}$ interactions. Column 5 adds controls for other levels of government and a dummy for a Democrat being in power last term. Column 6 adds more time-varying state characteristics such as population, the proportion of the population that is Black, the proportion of the population that is a college graduate, the proportion of population with a graduate degree, and the proportion of the population that completed elementary school.*

Appendix C - State Public Sector

Table C1- Coefficient estimates for annual earnings, weekly earnings and hourly wages for public sector workers

Earnings	Variables	All	s.e.	Men	s.e.	Women	s.e.
Annual	Democrat	-0.26	(1.9971)	1.78	(2.7489)	-1.90	(2.8001)
	Democrat × Black	6.45	(5.3527)	2.92	(8.3896)	8.47	(6.7218)
	Black	-5.26	(3.7765)	-14.33*	(5.8253)	-3.43	(4.9292)
Weekly	Democrat	0.54	(1.6181)	2.80	(2.3017)	-1.28	(2.1493)
	Democrat × Black	4.85	(4.0716)	0.75	(7.2199)	7.51	(5.0432)
	Black	-4.05	(2.6827)	-11.09*	(4.7422)	-2.37	(3.6381)
Hourly	Democrat	0.73	(1.3346)	2.91	(1.9545)	-0.79	(1.7332)
	Democrat × Black	5.31	(3.3918)	5.24	(6.1566)	5.30	(4.2398)
	Black	-7.61**	(2.0375)	-15.30**	(4.0152)	-4.12	(2.7398)

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The controls are the same as in Table 2. Coefficients and standard errors are multiplied by 100.*

Table C2- Coefficient estimates for total hours, usual hours and weeks worked for public sector workers

Intensive	Variables	All	s.e.	Men	s.e.	Women	s.e.
Total hours worked	Democrat	1.14	(4.0049)	-1.14	(1.9340)	-1.10	(2.1743)
	Democrat × Black	1.14	(4.0049)	-2.32	(5.5725)	3.17	(5.2089)
	Black	2.36	(2.6168)	0.97	(3.8797)	0.70	(3.3335)
Weeks worked	Democrat	-0.80	(0.9409)	-1.02	(1.3074)	-0.62	(1.4118)
	Democrat × Black	1.60	(2.9478)	2.17	(4.4747)	0.97	(3.6879)
	Black	-1.21	(2.0172)	-3.24	(3.2368)	-1.05	(2.3886)
Usual hours worked	Democrat	-0.19	(0.9308)	-0.11	(1.3036)	-0.48	(1.2898)
	Democrat × Black	-0.46	(2.0974)	-4.49	(3.3327)	2.21	(2.6819)
	Black	3.57**	(1.2865)	4.21*	(2.0487)	1.75	(1.7931)

*Results are clustered at the state-year level** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The controls are the same as in Table 2. Coefficients and standard errors are multiplied by 100.*

Table C3- Coefficient estimates for the probability of working in the public sector

Extensive	Variables	All	s.e.	Men	s.e.	Women	s.e.
State Public	**Democrat**	0.23*	(0.0988)	0.03	(0.1174)	0.42**	(0.1420)
sector	**Democrat × Black**	-0.15	(0.2951)	-0.08	(0.3905)	-0.21	(0.4283)
	Black	1.25**	(0.1801)	0.65**	(0.2494)	1.73**	(0.2480)

Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The controls are the same as in Table 2. Estimates are generated using a linear probability model for working in the state public sector. Coefficients and standard errors are multiplied by 100.

Appendix D – Business Sector

Table D1 - Impact of businesses

Outcomes	Variable	All	s.e.
Establishment entry rate	Democrat	-20.32	(19.0981)
Establishment exit rate	Democrat	-8.35	(14.4308)
Job creation rate	Democrat	-14.91	(25.7231)
Job destruction rate	Democrat	-26.60	(32.9170)
Net job creation rate	Democrat	-38.70	(56.3691)
Top corporate tax rate	Democrat	-2.94	(1.5786)

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. Estimates are generated from Business Dynamics Statistics, using a regression of the aggregate version of specification (1) for the outcomes variables: establishment entry rate, establishment exit rate, job creation rate, job destruction rate and net job creation. Coefficients and standard errors are multiplied by 100.*

Table D2 - Impact of businesses by firm size

Firm Size		0-100	100-500	500-1000	1000-2500	2500 & more
Outcomes	Variables	All	All	All	All	All
Establishment entry rate	**Democrat**	-17.62	-14.94	-17.65	-17.47	-24.56
	s.e.	(14.9685)	(23.3827)	(38.4313)	(42.2958)	(16.7670)
Establishment exit rate	**Democrat**	-2.63	9.11	15.76	-6.99	4.67
	s.e.	(10.8389)	(17.1895)	(31.9755)	(40.4646)	(13.4679)
Job creation rate	**Democrat**	1.74	-18.05	-97.49	-79.46	-43.94
	s.e.	(24.5423)	(34.0811)	(61.4491)	(71.8663)	(43.7873)
Job destruction rate	**Democrat**	-4.83	-12.51	-84.46	-72.94	-95.10
	s.e.	(23.6890)	(33.2656)	(58.2737)	(79.6551)	(58.4003)
Net job creation rate	**Democrat**	6.57	-5.53	-13.02	-6.52	51.16
	S.e.	(33.6475)	(46.1136)	(75.5415)	(107.9566)	(73.8913)

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. Estimates are generated from Business Dynamics Statistics, using a regression of specification (1), aggregating by firm size for establishment entry rate, establishment exit rate, job creation rate, job destruction rate and net job creation. The firm size correspond to the number of employee, where 0-100 means 0 to 100 employees. Coefficients and standard errors are multiplied by 100.*

Appendix E - Displaced Worker Surveys

Table E1 - Probability of being displaced

Outcomes	Variables	All	s.e.	Men	s.e.	Women	s.e.
Displaced	Democrat	0.17	(0.1633)	0.03	(0.2365)	0.33	(0.1950)
worker	Democrat × Black	-0.53	(0.4730)	-2.11*	(0.8530)	0.82	(0.5790)
	Black	1.54**	(0.2963)	2.40**	(0.6051)	0.87*	(0.3577)

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The variables come from DWS, which is available from 1984 to 2008 every two years. The table presents the propensity of having been laid off, using a linear probability model specification. The controls are the same as in Table 2. Coefficients and standard errors are multiplied by 100.*

Table E2 - Coefficient estimates by earnings categories, contingent on being displaced

Outcomes	Variables	All	s.e.	Men	s.e.	Women	s.e.
Low-earnings workers	Democrat	-10.65*	(4.1741)	-7.46	(5.1196)	-18.16**	(5.8854)
	Democrat × Black	5.46	(8.7472)	5.59	(10.3891)	16.57	(11.3647)
	Black	8.19	(6.2144)	8.91	(6.7488)	4.27	(9.0904)
Medium-earnings workers	Democrat	1.87	(3.1743)	-0.46	(3.5988)	6.83	(3.9730)
	Democrat × Black	-2.03	(5.6653)	-5.62	(7.4354)	-0.05	(6.4815)
	Black	-1.72	(3.2279)	2.86	(3.8328)	-6.78	(3.7693)
High-earnings workers	Democrat	8.79**	(3.2144)	7.92	(4.0830)	11.32*	(5.4340)
	Democrat × Black	-3.43	(6.6867)	0.04	(6.9780)	-16.52	(9.8053)
	Black	-6.47	(5.4289)	-11.77**	(5.1909)	2.51	(8.6880)

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The variables come from DWS, which is available from 1984 to 2008 every two years. Estimates are generated using a linear probability model for low-, medium- and high-earnings workers who have been laid off, conditional on having been Displaced. The controls are the same as in Table 2. Coefficients and standard errors are multiplied by 100.*

Appendix F- Household Earnings, before and after tax

Table F1 - Household Earnings

Outcomes	Variables	All	s.e.
Household earnings	Democrat	-1.70**	(0.6403)
before tax	Democrat × Black	3.35	(2.0316)
	Black	-23.21**	(1.4150)
Household earnings			
after	Democrat	-1.33**	(0.5630)
all tax	Democrat × Black	4.43*	(1.7540)
	Black	-19.22**	(1.2251)
Household earnings			
after	Democrat	-1.60**	(0.6251)
state tax	Democrat × Black	3.56	(2.0137)
	Black	-22.94**	(1.3999)

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The controls are the same as in Table 2. Outcome variables are in log form. Coefficients and standard errors are multiplied by 100.*

Appendix G - Minimum Wage, Incarceration Rate & State EITC Rate

Table G1 — Coefficient estimates for labour market outcomes of low-earnings workers and low-wage women

Coefficient estimates for labour market outcomes of low-earnings workers, controlling for minimum wage

Variable	Total hours	Labor force Participation	Employment
Minimum Wage	0.75*	0.32*	0.47**
s.e.	(0.3526)	(0.1460)	(0.1554)

Coefficient estimates for labour market outcomes of low-earnings workers, controlling for incarceration rate

Variable	Total hours	Labor force Participation	Employment
Incarceration Rate	0.34	-0.46**	-0.32*
s.e.	(0.3579)	(0.1498)	(0.1587)

Coefficient estimates for labour market outcomes of low-earnings women, controlling for state EITC rate

Variable	Total hours	Labor force Participation	Employment
State EITC Rate	17.14**	5.97	6.75*
s.e.	(6.3118)	(3.0978)	(3.0380)

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The controls are the same as in Table 2. Estimates are generated by regressing total hours on the linear probability model for being in the labor force and being employed, controlling subsequently for minimun wage, incarceration rate (per 1000 habitants and up to 1998, taken from Leigh (2008)) and state EITC rate (starting in 1990). Coefficients and standard errors are multiplied by 100 in the Table.*

Table G2 — The impact of partisan allegiance on State EITC rate

Variables	Has a State EITC Rate	Level of State EITC Rate
Democratic Governor	9.60**	1.49**
s.e.	(2.7597)	(0.5631)

*Results are clustered at the state-year level. ** denotes statistically significant results at the 1% level, and * denotes statistically significant results at the 5% level. The controls are the same as in Table 2. Estimates are generated by regressing partisan allegiance on the presence of a state EITC rate (using a linear probability model) and on the level of the state EITC rate. Coefficients and standard errors are multiplied by 100.*