Factors Influencing Governors' Salaries, 1961-2001

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Abstract: This paper examines the determinants of governors' salaries for the forty-eight contiguous states. A state's per capita personal income, population, unemployment rate and previous directional change in salaries are the primary determinants of governors' compensation. Yet, unlike previous results in the literature, findings here suggest that state per capita revenues and expenditures are both statistically and economically insignificant determinants of governor pay. Further, there appears to be a large amount of convergence among salaries over the forty year sample period; the states with lower pay in 1961 experienced faster growth in their governor's compensation. Thus, findings support the view that a governor's pay is based primarily on the responsibility measured by the economic size of the state.

I. Introduction

Little has been done to model the compensation of politicians. While money payments should play a minor part in the politicians "labor supply" decision, over the 1961-2001 period, we observed a large variation in the pay of politicians across states. During this period, the average two-year growth rate of governors' salaries for the 48 states was 8.66 percent with a standard deviation of nearly fifteen percent.

Several previous papers have examined the relationship between governors' salaries and several state-level variables. The variables that have been shown to be important indicators of the size of remuneration paid, at the state level, include: expenditures, personal income, government employment, and taxes. However, methods and results have varied among the previous research.

This paper attempts to assess the previous studies and provide a thorough evaluation of the determinants. The explanatory variables found in previous research are included here. Further, this paper includes some additional economically meaningful determinants. Our findings suggest that fiscal or budgetary variables fail to explain variation in salaries over the sample period. Further, findings confirm the importance of per capita personal income and population. In addition, the unemployment rate and previous change in the governor's salary are shown to be important determinants.

II. Related Literature

Earlier work (Abraham, Johnson, and Uyar (1994) (AJU) utilized a cross sectional model of governor responsibility, "productivity", and "power" to explain variation in governors' salaries in 1988. Among their findings is that "responsibility of position" (measured by total state expenditures) had a positive and statistically significant effect on a governor's salary. For the typical governor, each 1 percent increase in "total state expenditures" was associated with governors' salaries that were 0.13 percent higher.

AJU also examine two other explanatory variables, "productivity" (measured by per capita income of state's resident) and "power" (measured by the National Governors' Association (NGA) power index). Each was more weakly (statistically) connected to the variation in the governor's salary. Specifically, the higher a state's per capita income ("productivity"), the higher a governor's salary; quantifying the size of this variable (a "state's per capita income"), AJU find each 1 percent increase in a state's per capita income was associated with a 0.28 percent higher governor's salary.

Finally, the explanatory variable "power" had a significant effect, but, oddly, a counter-intuitive negative sign. Thus, a 1 percent higher a governor's NGA power index ("Power"), lowered a governor's salary by 0.33 percent.

AJU consider using, but do not formally report, several alternative measures of responsibility, such as number of public employees, state tax revenues, and population of state. They observe that while these measures were also significant, they were highly correlated with "total state expenditures" ($r > 0.9$), and, hence, not included the reported model. Regarding these other variables, they state: "…there is little need to use anything other than the expenditures variable" (AJU, 25).

Earlier, Crain and Tollison (CT) estimated a cross-sectional model of 50 states for individual years 1960s to test the relationship between governors' salary and the size of state budgets. They view the size of the state budget as a proxy for the "productivity" of a governor and conclude that the positive sign on this productivity variable supports the idea that the marginal productivity theory explained a portion of the variation in a governor's compensation.

Hafer (H) reexamined CT data set considering that some states use legislative means to set governor pay, while other states require some type of constitutional action, such as special referenda to alter governor pay. Using the data from the 1960s, he investigated the effect of these two different methods of determining governor's pay and found that the relationship between governor's pay and the size of the state budget holds under each type of compensation method. Hafer concludes:

> "…the magnitude of the relationship between governors' salaries and budget size is greater where pay is set by constitutional methods…The results offer quite convincing evidence that governors' compensation may be determined by

> competitive processes and not by some discretionary power of the governor" (H, 146-148).

Sen used a brief time series data set for the years 1971-1980 for all 50 states to test the notion that "…variations of governors' compensation can be partially explained by the state budget size and the way such pay fixations take place…"(Sen, 90). In his overall results, Sen's model estimates governor's salary as the dependent variable and includes 10 explanatory variables (all variables are reported as levels). Sen's group of "productivity variables" included state population, total state employees, per capita income, per capita expenditures, proportion of measures vetoed by the governor, and length of time of executive governance. His overall conclusion finds that all these productivity variables have the predicted (positive) sign, reflecting the idea that governor's pay is positively related to state measures of productivity.

In a recent study of governors' pay, Di Tella and Fisman (2004) (TF) looked at governor's wages over the 1950-1990 period and observe that "…there are large cross-state differences in pay of political leaders in the United States….Thus, contrary to popular belief, there is considerable variation in political compensation, both over time and across states" (TF, 480). Because of this considerable variation in governors' pay, the authors answered the question posed in the title of their paper (Are politicians really paid like bureaucrats?) as follows: No, governors are not paid like bureaucrats (TF, 504).

More detailed investigations of variations in pay with state performance variables found the following impact on governor's pay:

1. Each 10 percent increase in a state's per capita income results in a 4.5 percent increase in pay. This income elasticity of pay is large in comparison with the

elasticity of pay for bureaucratic wages in the state and large compared to the estimates from studies of CEO pay. Interesting, pay patterns before 1966 show no relationship to variations in income per capita and the pay pattern between 1950 and 1966 is described as "mechanical" (TF, 498).

2. Each 10 percent increase in per capita tax payments results in a 1 percent pay cut. This finding is consistent with the notion that taxes are viewed by the public as an indictor of state fiscal performance and higher taxes are viewed negatively by the public.

III. Contribution

We extend the previous studies by examining the following:

1. Governors' salaries over the time period 1961 to 2001. This will permit utilization of a variety of time-series techniques that are not available for cross-sectional data sets. Further, since most of our variables will be measured in "percentage change" form, our estimated coefficients can be interpreted as "elasticities".
2. Additional "explainers" of variation in governors' salaries are explicitly considered. These include:
    a. State fiscal performance (measured by each state's revenue per capita (REV) and each state's expenditures per capita (EXP);
    b. State economic performance (measured by the state's unemployment rate (UNEM); a negative (-) relationship is expected, consistent with the notion that poorer state economic performance will result in lower compensation;

c. Growth rate in a state's personal income (PI); a positive (+) relationship is expected, consistent with better state economic performance will result in higher compensation;

d. A dummy variable indication whether the governor's salary was increased or decreases in the previous period (MORE or LESS) with a negative and positive relationship expected, respectively.

Further, the empirical method here uses growth rates over the natural log of the variables. A vast literature has concerned itself with the issues and problems of using time-series data. To mitigate the potentially bias and inefficiency that can arise, we transform the variables into growth rates by taking the first-difference of the natural log of each variable.[1]

IV. Data Used

Governors' salaries for the forty-eight contiguous states are provided biennially in <u>The Book of the States</u> (Council of State Governments, various years).[2] The sample collected ranges from 1959 through 2001, and the two year growth rate was calculated (SAL).[3] Therefore, twenty-one time-wise and forty-eight cross-sectional observations are employed for a total of 1008 observations. Further, two dummies are included to identify whether the state raised (MORE) or lowered (LESS) their governor's salary two years prior to the current period. Thus, these two dummies represented the lagged direction of change in the governor's salary. If a state neither raised nor lowered the compensation level, then both MORE and LESS equal zero.

State revenue (REV), expenditures (EXP), personal income(PI), population (POP), total state government employment (EMP) and unemployment rates (UR) are provided by the U.S.

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[1] Pre-testing suggests that several of the series in the sample are non-stationary in their natural log levels.
[2] The sample excludes Alaska and Hawaii.
[3] Here, all growth rates are calculated as the change in the natural log of the variable.

Census Bureau in the Statistical Abstract of the United States (various years). The REV, EXP, and PI variables were converted to per capita values, and the two-year growth rates were calculated. State government employment is provided by the U.S. Census Bureau as full time equivalent per ten thousand population.[4]

V. Explaining Variation in Governors' Salaries

Figure 1 provides the two-year growth rate of governors' salaries, averaged across the forty-eight states. The average two-year growth rate of salaries for the entire sample is 8.66 percent, which is indicated by the dashed line. From Figure 1, the average growth of salaries through 1987 is higher than the sample average. The actual average growth in compensation equaled 10.3 percent from 1961 through 1987. This average increase falls substantially in 1989, and averages 5.3 percent for the remaining sample period.

Table 1 provides the actual salaries for the governors of the forty-eight states in 1961 and 2001. In 1961, Arkansas, Maine, and North Dakota had the lowest paid governors with annual salaries of $10,000, but Nebraska had the lowest paid governor at the end of the sample period ($65,000 in 2001). New York had the highest paid governor in 1961 and 2001, $50,000 and $179,000 respectively, and the lowest rate of increase over the period. The average annual increase in governor's compensation in New York averaged 3.11 percent per year. The fastest rate of growth occurred in Georgia with an average annual increase in compensation of 5.76 percent, increasing from $12,000 per annum in 1961 to $127,303 in 2001.

Di Tella and Fisman note that there is considerable disparity between the compensation paid to governors, but the amount of variation appears to decrease over time. In fact, examining Table 1 shows that the percentage difference between the highest paid and lowest paid governor

[4] Descriptive statistics are provided in the appendix.

was four hundred percent in 1961. This difference falls to one hundred seventy-five percent by 2001. Therefore, the data suggests that governors' pay appears to converge among the states. This issue will be considered later.

Interestingly, if one ranks the rate of growth in governors' salaries, state per capita personal income growth, and population growth, Georgia ranks first, second, and eight, respectively. Conversely, New York ranks last in salary growth, thirty-ninth in per capita income growth, and forty-second in population growth. Thus, it appears that state per capita income growth and population growth serve as a primary determinant of the rate of growth in governor compensation.

To empirically test the relationship noted in the previous paragraph, various versions of equation (1) were estimated. The natural log of governor's salaries are regressed on the natural log of per capita state revenues, expenditures, personal income, state government employment, population growth, the lagged state unemployment rate (in levels), and whether the state previously increased of decreased their governor's salary. Cross-sectional and time-wise fixed effects were added to control for heterogeneity, and the results of the various estimates are provided in Table 2. In all estimates, robust standard errors are provided given the possible presence of heteroskedasticity.

$$\begin{aligned} SAL_{it} &= \beta_1 + \beta_2 REV_{it} + \beta_3 EXP_{it} + \beta_4 PI_{it} + \beta_5 POP_{it} + \beta_6 EMP_{it} \\ &+ \beta_7 UR_{it-2} + \beta_8 MORE_{it} + \beta_9 LESS_{it} + \delta_i + \gamma_t + \varepsilon_{it} \end{aligned} \tag{1}$$

The last column of Table 2 contains the estimates of equations (1), including state and time-wise fixed effects.

The results in Table 2 firmly support the responsibility factors and pay-for-performance factors. Responsibility factors include personal income, population, and state government employment. All have a positive effect on a governor's salary. As shown in Figure 1, the average two-year change in a state per capita income was 10.3 percent. This suggests the growth in a governor's salary in a state experiencing average personal income growth was just over 2.3 percent. Given the average growth in state population and state government employment were 2.3 percent and 3.3 percent, respectively, these two added one-quarter of a percent and 0.44 percent to the growth in the average governor's salary.

Finally, our "pay-for-performance" measure implies that governors are penalized for increases in a state's unemployment rate. The coefficient implies and elasticity of nearly -0.1.[5] From the sample average, an increase in the unemployment rate by one standard deviation would decrease the growth in a governor's salary by 3.5 percent. Therefore, there are substantial penalties to large levels of unemployment in a state.

In addition, results suggest that citizens of a state punish governors in the face of rising revenue; increases in state revenues per capita lower governors' salaries. Further, the estimated elasticity in this sample is almost forty-five percent higher than that found recently by DiTella and Fisman.[6]

Contrary to previous findings, results fail to support the productivity hypothesis. Crain and Tollison (1976), Hafer (1977), Sen (1991), and Abraham, Johnson, and Uyar (1994) all find a positive relationship between state expenditures and governors' salaries. In all estimates, state expenditures per capita are economically and statistically insignificant. Further, the sign on the coefficient is opposite of the expected sign.

Some apparent problems arise from the methods used to arrive at the results in Table 2. First, serial correlation is likely. Also, given that the variables are included in their respective levels, spurious correlation is another potential problem. To account for these issues, a second

[5] The average state unemployment rate is 5.70 and a standard deviation of 2.03.
[6] DiTella and Fisman use the sum of income, sales, and corporate taxes, which is a subset of our measure.

round of estimations is conducted. For this second round, the two-year growth rate of all variables is calculated (except the unemployment rate). This growth rate is calculated as the difference in the log levels of the series. The results for the second round are included in Table 3.

The results in Table 3 reveal several robust patterns. In all specifications, growth in per capita personal income and population in a state has a positive effect on the growth of governors' salaries over the forty year period, as shown in Table 2. Using the preferred estimate where cross-sectional and time-wise fixed effects are added [in column (4)], a one percent increase in per capita personal income causes a 0.18 percent increase in salaries, and is quite robust to earlier estimates. The effect of population however is substantially larger; an increase in population of one percent increases the growth rate of a governor's salary by approximately 0.52 percent. The direction of these effects matches those of Abraham, Johnson, and Uyar and Di Tella and Fisman, however the magnitude differs. Using the sample average growth rate of 2.3 percent, population growth increases the average governor's salary by 1.2 percent and accounts for approximately fourteen percent of the average two-year growth rate of salaries in this sample.

DiTella and Fisman note that the "position" hypothesis states that a change in a governor's salary may be due to citizens wanting to keep the pay in line with that of the local community. The position hypothesis is supported if the personal income coefficient is equal to one. The results in Table 2 and 3 strongly reject this hypothesis, as do Di Tella and Fisman's results. Indeed, the ninety-five percent confidence interval for the personal income coefficient from Table 3 is [-0.0569, 0.4221].

In addition, previous changes in a governor's salary affect the future salary growth as seen by the MORE variable. Tests fail to reject the restriction that the sum of MORE and the constant is statistically zero in all estimations. However, results in columns one, three, and four reject that the sum of the LESS variable and constant equals zero. Thus, holding all else constant, a prior increase in governors' salaries (MORE equals one) reduces the average percentage change in governors' salaries to zero in the current period. Yet, given the statistical and economic significance of the interaction of the LESS variable and constant, a prior reduction in a governor's salary increases the average percentage change this period by 11.1 percent.

As found in Table 2, results in columns three and four of Table 3 support a pay for performance view, since governors' salaries are negatively correlated with the unemployment rate in their respective state. In fact, statistical tests, using results in column four, suggests that a two percentage point increase in the state unemployment rate two years prior reduces the growth of a governor's salary by two percent in the current period. Thus the result is robust to Table 2; an increase in a state's unemployment rate leads to substantial reductions in a governor's salary.

Finally, the findings reject cross-sectional heterogeneity among the states; testing the cross-section fixed effect fails to reject the null of zero for the state fixed effects. In fact, the fixed effect for only one state, Michigan, is statistically different from zero at a ninety percent level of confidence.[7] Examining the time-wise fixed effects, the test rejects the joint null of zero.

Unlike previous research by AJU, these results reject the statistical and economic significance of state expenditures in determining the growth in governors' salaries. In addition, changes in the growth of state revenue have no effect on the growth of salaries. One possible explanation for this result is collinearity between expenditures and revenues at the state level. Indeed, most states are constitutionally required to balance their respective budgets, which is apparent given the high correlation between the two growth rates (0.595). Robustness checks

[7] The cross-sectional fixed effect for Alabama is the omitted category.

were conducted that excluded either the REV or EXP variable from equation (1). Results were robust to those found in Table 2. Table 3 contains the results of these two robustness checks.

Column (1) of Table 3 omits the growth of state expenditures and column (2) omits the growth of state revenues. In the two columns, personal income growth, population growth, the unemployment rate, and the MORE variables are statistically and economically significant. The parameter estimates are hardly biased by the exclusion of either variable. More importantly, the remaining budgetary variable (either revenue growth or expenditure growth) is statistically insignificant in both columns of Table 3. Therefore, results here suggest that the rate of growth in a state's expenditure or revenues has no impact on the rate of change in governors' salaries across the forty-eight states.

Further, the "reward" models [see Di Tella and Fisman] indicate that a governor is paid for good stewardship of the state. In particular, the budgetary changes in a state may affect the pay of a governor. Abraham, Johnson, and Uyar refer to this as the "responsibility" determinant. As noted, our results summarized in Tables 2 and 3 reject this idea.

V. Is There Convergence in Governors' Salaries?

As noted earlier, governors' pay in this sample appears to converge, which is also noted by Di Tella and Fisman. Further, results in Table 2 indicate that per capita income is an economically and statistically significant determinant of governors' salaries growth. If there is convergence in state personal income, then there should be convergence of governors' salaries. This section examines the question: Does compensation among the governors converge? Specifically, the growth rate of governors' salaries over the entire sample period is tested for convergence among the forty-eight states, which is given in equation (2). Since averages over the entire period are used, the test here contains forty-eight observations.

$$\dot{SAL}_i = \alpha_1 + \alpha_2 Ln(SAL1961_i) + \pi_i \quad (2)$$

In equation (2), the dependent variable ($\dot{SAL}_i$) is measured as the average annual growth rate and calculated by taking the difference in the natural log value of the 2001 and 1961 observations and divided by the number of years in the sample period. The second term on the right hand side in equation (2) [Ln ($SAL1961_i$)] is included to test for and measure the size of convergence. The results from estimating equation (2) are given in Table 4 below.

Results in Table 4 support the convergence of governors' salaries; the higher a governor's salary in 1961 the slower the growth over the following forty years. For example, the difference between the natural log of the compensation received by the governor of New York and the natural log of the governor of Alabama's pay was 1.609. The predicted effect from Table 4 is that the average growth of the governor's compensation in New York was 2.96 percent lower per year compared to Alabama. Figure 2 plots the actual and predicted growth rate of salaries based on the results in Table 4. The convergence demonstrated in Table 4 is apparent in Figure 2.

VII. Conclusion

This paper assesses the previous findings of the determinants of governors' salaries. Results support the importance of per capita personal income and population in determining the growth in governor's compensation. However, contrary to previous research, state per capita revenues and expenditures fail to explain variation in pay. The failure of these budgetary variables to explain governors' compensation may be result from the use of variables in levels or by the lack of sufficient time-wise variation in the previous research. In addition, the unemployment rate and direction of previous change in pay are important determinants in explaining governors' compensation. Results here support the view that a portion of governors pay is based on a state's economic performance, whether the governor has control or not over the states economy. Further, the larger the responsibility due to the size of the state in terms of population, the larger the growth in governors' compensation. Finally, convergence in pay is strongly confirmed among the forty-eight states. Governor compensation grew faster over the sample period in states with the lowest paid governors in 1961.

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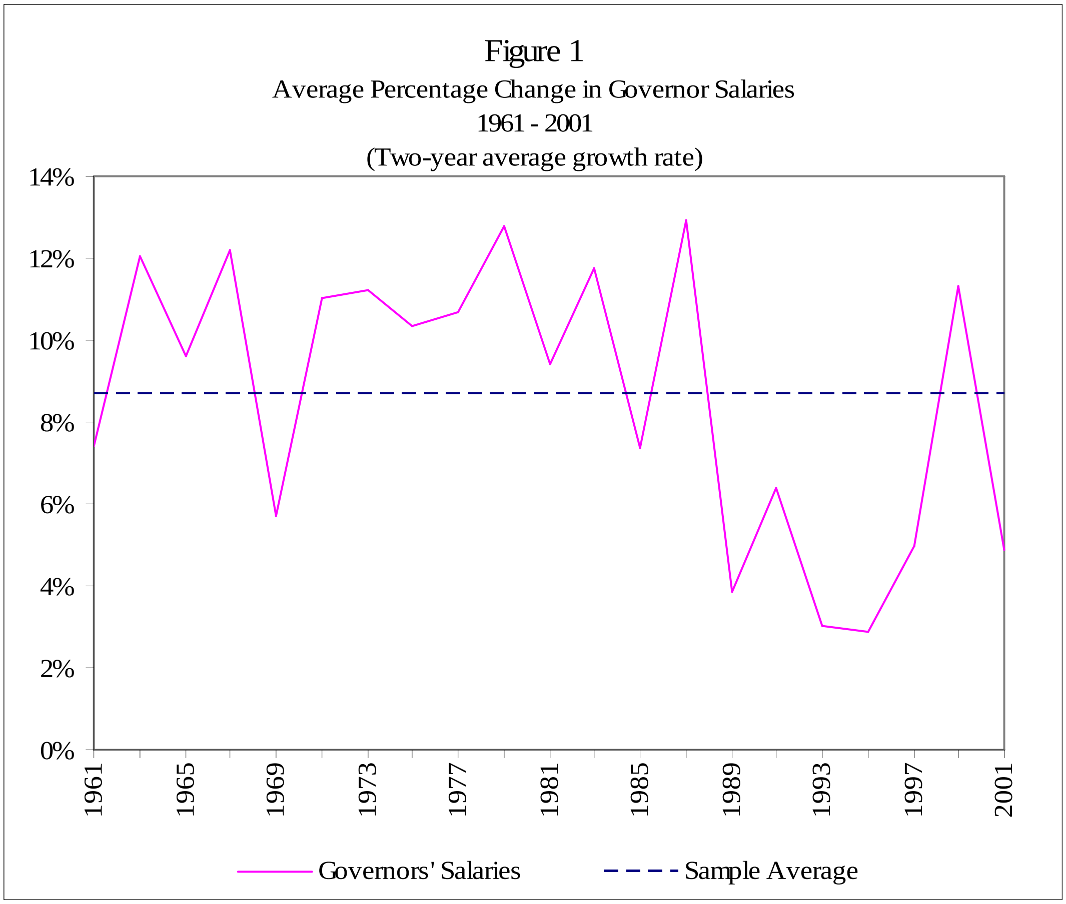
Figure 1
Average Percentage Change in Governor Salaries
1961 - 2001
(Two-year average growth rate)
14%
12%
10%
8%
6%
4%
2%
0%
1961
1965
1969
1973
1977
1981
1985
1989
1993
1997
2001
Governors' Salaries
Sample Average

Figure 2
Actual and Predicted Average Salary Growth
1961 - 2001

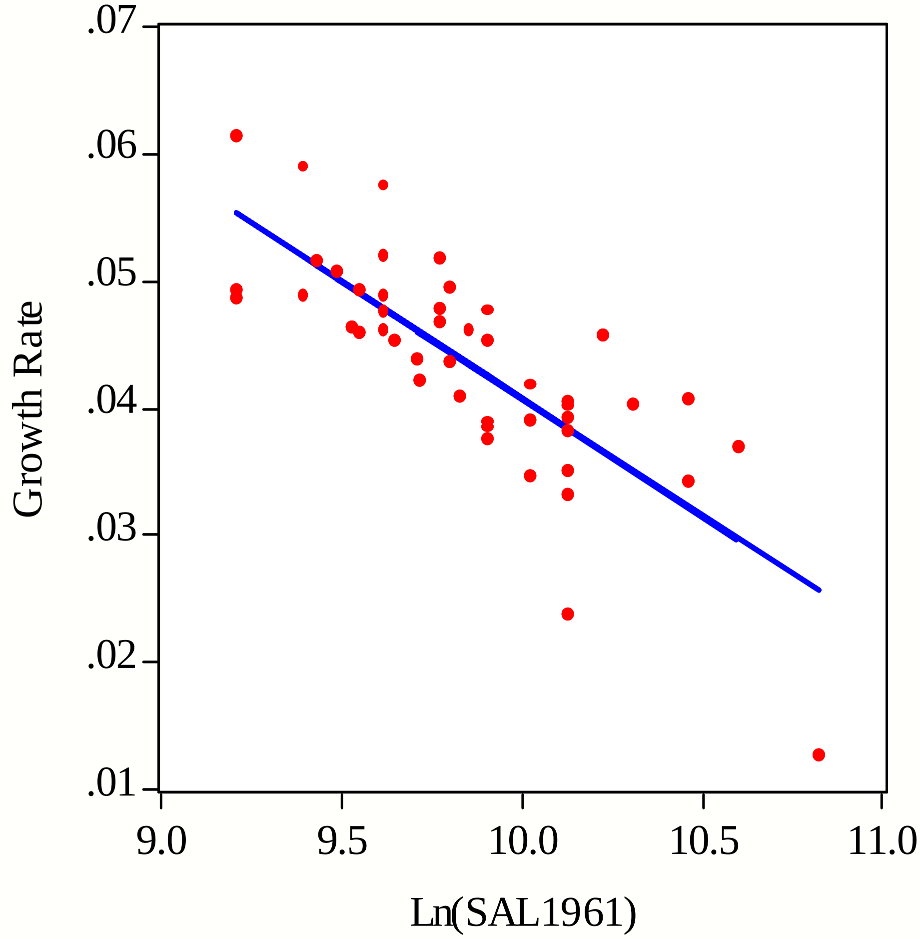

Table 1
Governors' Salaries
1961 and 2001

	1961	2001
Alabama	$ 25,000	$ 94,655
Arizona	$ 18,500	$ 95,000
Arkansas	$ 10,000	$ 71,738
California	$ 40,000	$ 175,000
Colorado	$ 20,000	$ 90,000
Connecticut	$ 15,000	$ 150,000
Delaware	$ 17,500	$ 114,000
Florida	$ 22,500	$ 120,171
Georgia	$ 12,000	$ 127,303
Idaho	$ 12,500	$ 98,500
Illinois	$ 30,000	$ 150,691
Indiana	$ 15,000	$ 95,000
Iowa	$ 22,500	$ 107,482
Kansas	$ 16,500	$ 95,446
Kentucky	$ 18,000	$ 103,018
Louisiana	$ 20,000	$ 95,000
Maine	$ 10,000	$ 70,000
Maryland	$ 15,000	$ 120,000
Massachusetts	$ 20,000	$ 135,000
Michigan	$ 27,500	$ 172,000
Minnesota	$ 19,000	$ 120,303
Mississippi	$ 25,000	$ 101,800
Missouri	$ 25,000	$ 120,087
Montana	$ 14,000	$ 88,190
Nebraska	$ 14,000	$ 65,000
Nevada	$ 18,000	$ 117,000
New Hampshire	$ 16,587	$ 100,690
New Jersey	$ 35,000	$ 130,000
New Mexico	$ 17,500	$ 90,000
New York	$ 50,000	$ 179,000
North Carolina	$ 25,000	$ 118,430
North Dakota	$ 10,000	$ 83,013
Ohio	$ 25,000	$ 126,485
Oklahoma	$ 15,000	$ 101,040
Oregon	$ 20,000	$ 93,600
Pennsylvania	$ 35,000	$ 138,316
Rhode Island	$ 15,000	$ 95,000
South Carolina	$ 15,000	$ 106,078
South Dakota	$ 15,500	$ 95,389
Tennessee	$ 12,000	$ 85,000
Texas	$ 25,000	$ 115,345
Utah	$ 13,200	$ 100,600
Vermont	$ 13,750	$ 88,026
Virginia	$ 25,000	$ 125,000
Washington	$ 22,500	$ 139,087
West Virginia	$ 17,500	$ 90,000
Wisconsin	$ 20,000	$ 122,407
Wyoming	$ 20,000	$ 95,000
Average	$ 20,126	$ 110,623

Table 2
Determinants of Governors' Salaries
(Dependent Variable is the natural log of Governors' Salaries)

	(1) OLS	(2)	(3) OLS with Fixed Effects	(4)
Ln(Revenue)	0.2014	0.0252	0.2301	-0.1432
	(0.016)	(0.758)	(0.012)	(0.130)
Ln(Expenditures)	-0.0009	-0.0428	-0.0137	-0.0722
	(0.992)	(0.610)	(0.891)	(0.446)
Ln(Personal Income)	0.3486	0.5974	0.3767	0.2289
	(0.000)	(0.000)	(0.000)	(0.055)
Ln(Population)	0.1733	0.1909	0.1776	0.1109
	(0.000)	(0.000)	(0.000)	(0.005)
Ln(State Government	0.0436	0.0884	0.0711	0.1324
Employment)	(0.242)	(0.029)	(0.069)	(0.005)
Unemployment Rate	-0.0026	-0.0066	-0.0017	-0.0175
	(0.389)	(0.015)	(0.686)	(0.000)
Pay Increase	0.0896	0.0581	0.0924	0.0553
	(0.000)	(0.000)	(0.000)	(0.000)
Pay Reduction	0.0685	0.0569	0.0700	0.0433
	(0.029)	(0.047)	(0.026)	(0.100)
Cross-Sectional Fixed Effects	No	Yes	No	Yes
(p-value of joint significance)	—	(0.000)	—	(0.000)
Time-Wise Fixed Effects	No	No	Yes	Yes
(p-value of joint significance)	—	—	(0.056)	(0.000)
Constant	3.4275	2.2530	2.9032	6.999
	(0.000)	(0.001)	(0.000)	(0.000)
Observations	1001	1001	1001	1001
R^2	0.897	0.936	0.900	0.940

P-values in parenthesis

Table 3
Determinants of Governors' Salaries
(Dependent Variable is two-year growth in Governors' Salaries)

	(1) OLS	(2) OLS with Fixed Effects	(3)	(4)
Revenue Growth	0.0334	0.0197	0.0168	0.0259
	(0.553)	(0.732)	(0.810)	(0.716)
Expenditures Growth	0.0636	0.0934	0.0168	0.0132
	(0.324)	(0.173)	(0.832)	(0.875)
Personal Income Growth	0.2287	0.2204	0.1982	0.1826
	(0.004)	(0.007)	(0.093)	(0.135)
Population Growth	0.365	0.6226	0.3512	0.5286
	(0.020)	(0.018)	(0.030)	(0.076)
State Government Employment Growth	0.0129	0.0165	-0.0079	-0.0054
	(0.773)	(0.715)	(0.876)	(0.917)
Unemployment Rate	-0.0014	0.0013	-0.0076	-0.0094
	(0.528)	(0.642)	(0.008)	(0.032)
Pay Increase	-0.0669	-0.0792	-0.0683	-0.0804
	(0.000)	(0.000)	(0.000)	(0.000)
Pay Reduction	0.0329	0.0262	0.0469	0.0402
	(0.366)	(0.478)	(0.187)	(0.264)
Cross-Sectional Fixed Effects	No	Yes	No	Yes
(p-value of joint significance)	—	(0.9643)	—	(0.9456)
Time-Wise Fixed Effects	No	No	Yes	Yes
(p-value of joint significance)	—	—	(0.000)	(0.000)
Constant	0.0697	0.0262	0.0787	0.0708
	(0.000)	(0.465)	(0.001)	(0.128)
Observations	1008	1008	1008	1008
R^2	0.071	0.088	0.115	0.132

P-values in parenthesis

Table 4
Determinants of Governors' Salaries: Robustness Checks
(Dependent Variable is two-year growth in Governors' Salaries)

	(1)	(2)
	OLS with Fixed Effects	
Revenue	0.0313 (0.634)	—
Expenditures	—	0.0255 (0.741)
Personal Income	0.1819 (0.137)	0.1865 (0.126)
Population	0.5283 (0.076)	0.5300 (0.076)
State Government Employment	-0.0051 (0.922)	-0.0047 (0.928)
Unemployment Rate	-0.0096 (0.022)	-0.0093 (0.033)
Pay Increase	-0.0803 (0.000)	-0.0803 (0.000)
Pay Reduction	0.0403 (0.263)	0.0404 (0.260)
Cross-Sectional Fixed Effects (p-value of joint significance)	Yes (0.9460)	Yes (0.9457)
Time-Wise Fixed Effects (p-value of joint significance)	Yes (0.000)	Yes (0.000)
Constant	0.0720 (0.113)	0.0716 (0.122)
Observations	1008	1008
R^2	0.132	0.132

P-values in parenthesis

Table 5
Tests of Convergence in Governors' Salaries

	OLS Results	Sample Average
Dependent Variable: Average Growth of Governors' Salaries, 1961 - 2001		0.0436
Ln(Governors' Salaries)$_{1961}$	-0.0184 (0.000)	9.8450
Constant	0.2252 (0.000)	
Observations	48	
R^2	0.618	

P-values in parenthesis

Appendix Table 1
Descriptive Statistics

	Mean	Standard Deviation
Two-Year Growth Rate of:		
Governors' Salaries	0.0866	0.1483
Revenue	0.1618	0.0925
Expenditures	0.1573	0.0863
Personal Income	0.1297	0.0633
Population	0.023	0.024
State Government Employment	0.0328	0.0987
Other Variables:		
Unemployment Rate	5.6274	2.0192
Pay Increase	0.4583	0.4985
Pay Reduction	0.0284	0.1662

Appendix Table 2
Correlation Matrix

	Governors' Salaries	Revenue	Expenditures	Personal Income	Population	State Government Employment	Unem-ployment Rate	Pay Increase	Pay Reduction
Governors' Salaries	1								
Revenue	0.0854	1							
Expenditures	0.0781	0.5952	1						
Personal Income	0.1029	0.3965	0.3061	1					
Population	0.0319	0.1406	0.1302	0.0567	1				
State Government Employment	0.0433	-0.0413	-0.0302	0.0084	-0.0963	1			
Unemployment Rate	-0.2252	-0.033	0.0148	0.0378	-0.064	0.0687	1		
Pay Increase	0.0642	-0.0189	-0.0131	-0.0594	-0.0102	-0.0344	-0.1583	1	
Pay Reduction	-0.0354	0.0082	-0.2369	-0.0128	-0.1172	-0.144	-0.0074	0.0351	1