



▶ *In the great laboratory of the 50 united states—with its diversity of institutions, business climates and geographies—economic forces play out in different ways.*

While I was growing up in Kansas, my parents often stressed to me that hard work breeds success. My father was a jewelry salesman serving small and mid-sized stores in Texas and the Southwest. During school vacations, I frequently joined him on his travels and learned about the challenges of running a small business. My mother worked as a real estate agent and taught me the importance of helping people reach their objectives.

Those experiences helped make me who I am and stayed with me during my careers in financial services and academia, which regularly brought me back to Texas. They certainly guide me as I begin as president of the Federal Reserve Bank of Dallas.

I strongly believe jobs are central to economic well-being, a point reaffirmed in this issue of *Southwest Economy*. In the great laboratory of the 50 united states—with its diversity of institutions, business climates and geographies—economic forces play out in different ways. One important dynamic is the tradeoff between wage growth and unemployment, as Anil Kumar writes in “Wage Flexibility in Texas May Ease Impact of Tighter Monetary Policy.”

The work of economist A.W. Phillips and his Phillips curve suggests that as unemployment falls and slack is wrung out of the labor market, wages tend to rise, boosting inflationary pressures. This relationship is one of the indicators Federal Reserve policymakers take into account when considering whether to change the short-term federal funds interest rate.

Wages tend to be more flexible in Texas than in other states, Kumar finds. There are a number of reasons for that—among them, a lower minimum wage here and more unionization and greater labor market regulation elsewhere. Thus, during economic weakness, Texas workers accept less for their efforts and employers resort to fewer layoffs. In better times, that flexibility helps wages climb faster here.

Kumar’s article, along with the others in this issue, underscores the importance of regional differences in understanding economic change and the implications for monetary policy.

This research is one example of the terrific work being done here at the Dallas Fed. I look forward to meeting and learning from you as I begin this new chapter and help guide the Eleventh District through the exciting period ahead.

A handwritten signature in black ink that reads "Robert S. Kaplan". The signature is written in a cursive, flowing style.

Robert S. Kaplan  
President and Chief Executive Officer  
Federal Reserve Bank of Dallas