

Bond Case Briefs

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Messy Politics Won't Keep Goldman Sachs Out of Texas.

Housing costs, tax breaks, labor pool more than make up for hardline red state policies.

In about five years, a gleaming new \$500 million campus in central Dallas, a stone's throw from the home of the Mavericks' basketball arena, will house thousands of Goldman Sachs Group Inc. staff. The bank, synonymous with Wall Street and New York, is not alone in expanding in southern US states at a time when social conservatives are unleashing a spate of restrictive laws on abortion and education, while knocking down barriers to gun control or using fossil fuels.

Charles Schwab Corp. last year left San Francisco for a new headquarters in Westlake, a Dallas suburb, while Vanguard Group is spending millions to establish an office in the area for financial advisers and technology staff. The hedge fund giant Citadel is shifting its home base from Chicago to Miami.

These two cities are starting to become increasingly significant financial hubs in the wake of the Covid pandemic. The question for banks and money managers being pulled south by tax benefits and lower costs, is whether a deeply conservative climate will make it harder to attract and retain the highly educated, younger workers they need. For now, the signs are that money talks louder than politics. Texas has more Fortune 500 corporate headquarters than any other state even after it passed the most restrictive laws on abortion in the country more than a year ago, a Bloomberg News piece noted this week. A local academic quoted in the article warned that the laws will ultimately hurt the diversity of thought and innovation in the state.

But there's an alternative view for corporate America: People will keep moving South, graduates from the highly rated universities in Texas will build lives there and economic growth will spur more wealth creation. Ultimately, the demographic facts on the ground will govern the political weather. In the near term, the battles between conservative politicians and some corporations whose staff skew more socially liberal will likely get worse before they get better.

States have so far used their municipal-bond programs to wage their fights. Wells Fargo & Co. has warned it faces a de facto ban from Texas bond deals as lawmakers look to stop business going to institutions it deems hostile to energy companies. Another Texas law on gun policies last year shut some banks out of the market, with several other states bringing copycat laws. Politicians have already threatened to make abortion the next bond-market battleground.

It is still unclear what anti-abortion lawmakers can or will do if they want to punish companies that support staff seeking the treatment out of state – but it seems unlikely the answer will be nothing. Some banks like Goldman Sachs have committed to back employees. Others, including Citadel, haven't commented publicly. But according to a person with knowledge of the firm's policies who didn't want to be named, it has always ensured its staff can get the medical care they need.

For Goldman Sachs, though, there are no second thoughts about its ambitious Dallas development plan. The process for planning and building major new offices happens over many years and is not just about the tax breaks: The bank is committed to local hiring in Texas, which is a rich area for

technology and engineering recruitment among graduates from Texan universities. These moves are also in response to demographic changes long underway. Dallas is no backwater, and Texas has been one of the fastest growing state economies over the past 20 years.

More widely, there has been a steady trend for more and more workers to head south and west for warmer winters and away from colder, northern cities since 2000, according to Dietrich Vollrath, professor and chair of economics at the University of Houston. In his 2020 book, "Fully Grown," he says this may have been a drag on the US economy for much of this time because the workers were often heading to cities that had less productive industries than their northern counterparts. But as populations grow and density increases, cities like Dallas, Miami and many others could start to make productivity gains.

Vollrath also looks at the role of housing. In a city like San Francisco, development rules are strict and there is no virgin space on which to build. The more people try to move there, the more rapidly housing costs increase, which is a barrier to entry and to growth. Dallas is the opposite: It has few restrictions on what people can build and no limit on surrounding space to build it. That's another big economic reason for companies to keep establishing offices there.

Many in politics and business believe that companies have no business getting involved in cultural and political debates but should stick to creating value for shareholders. But very large employers unavoidably contain the social mores of their employees: The younger, more educated and affluent those people are, the less socially conservative their views might well be. Cities offer tax breaks to encourage economic development. Success on that front could mean political change, too.

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