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The Importance of Good Governance

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Introduction

Good governance is a pivotal determinant of urban growth and prosperity. This report explores different dimensions of local governance and their implications for economic development, exemplifying how cities can achieve sustainable growth through effective public administration. We examine the role of governance and policymaking on key factors that affect city vibrancy, which we generally capture by looking at population growth, public schools, public safety, tax policies, fiscal management, and leadership quality in shaping the economic landscape of cities.

First, we focus on aspects of governance like government structure and fiscal management. Different forms of government reveal how administrative structures impact urban efficiency and growth. Sound fiscal management, reflected in favorable bond ratings, is essential for cities to undertake necessary infrastructure projects and maintain financial health. Lastly, visionary leadership can catalyze significant urban transformations, as illustrated by the case study of Karl Dean’s tenure as mayor of Nashville.

Then, we explore dimensions that are largely determined by governance like education and safety. High-quality education systems not only enhance individual prospects but also attract families and businesses, fueling local economies. Effective public safety measures reduce crime, thereby lowering business costs and increasing urban desirability. The relationship between tax policies and population movement underscores the delicate balance required to fund essential services without driving residents away. This report provides an important reference of why good governance is important for a vital city and how to achieve it.

Forms of Government

Political and economic institutions in cities can have a profound impact on their long-term economic development and success (Acemoglu & Robinson, 2012). A key factor in setting the conditions for growth is the type of government cities have. In the best-case scenario, efficient and high-performing local governments can deliver residents and businesses quality services, adopt democratically approved and evidence-based policies and legislation, and lead people to expect bright futures for their hometown. At worst, local governments can be inefficient and ineffective at delivering services, corrupt, adopt misguided policies and legislation that has been proven ineffective, and frustrate existing businesses and residents to the point of out-migration. To what extent does the structure of local government impact the economic success and growth of cities?

The vast majority of city governments are either strong mayor or council-manager. In a strong mayor system, the mayor acts as the city's chief executive, with broad powers including appointing department heads, drafting and proposing budgets, and utilizing veto power, while the council serves as the city's legislative body. In a council-manager system, the mayor serves on the city council and does not have veto power, while a city council appointed manager is responsible for budgets and appointing department heads. Some cities, such as Miami, Oakland, and Fresno, have a hybrid of these two forms of government, where the council is the legislative body and the mayor is the chief executive, but either the mayor or city council appoints a city manager or a chief administrative officer to oversee day to day operations. Portland, Oregon is the only city among the 100 largest that utilizes a city commission where an elected mayor and a small board of elected commissioners sit on a governing board (a commission) and exercise legislative and executive powers. Each commissioner is also responsible for at least one specific city agency or department (such as public works, health, fire, and police).

Among the 100 largest cities in the US, 93 are either strong mayor or council-manager, as shown in Table I. Several studies in the late 1980s and early 1990s compared these two forms of government and found that neither was more efficient than the other (Deno & Mehay 1987, Hayes & Change 1990). In more recent years, there has been a growing body of literature that suggests that council-manager forms of government are better managed and more efficient, yet more evidence is needed to support these claims (Carr 2015). Nashville has had a strong mayor government since the city and county consolidated into the Nashville metro government in 1963, with a mayor, vice-mayor, and a 40-member council with 35 district representatives and five at-large members. Other large cities with strong mayor forms of government include Atlanta, Chicago, Denver, Houston, Los Angeles, New York, and San Francisco. Large cities with council-manager forms of government include Austin, Charlotte, Dallas, Phoenix, and San Jose.

In order to explore the possible economic growth implications of these two different forms of government, we compared their differing population growth rates between 2010 and 2019 in the 100 largest cities in the US. As shown in Table I, council-manager cities had median growth rates (11 percent) that were almost twice as high as strong mayor cities (six percent). High growth, council-manager cities included Irvine, California with a growth rate of 35 percent, Henderson, Nevada (24 percent), and Fort Worth, Texas (21 percent). None of these large cities with a council-manager lost population over this period. High growth, strong mayor cities included Seattle (23 percent), Denver (20 percent), and Orlando (20 percent). Several cities with strong mayor forms of government lost population, including St. Louis (negative six percent), Detroit (negative six percent), and Toledo (negative five percent). Four of the top five fastest growing cities had council-managers and nine of the ten slowest growing cities, which all lost population, had strong mayors.

Table I: Form of Government in the 100 Largest U.S. Cities and Population Growth, 2010 to 2019

Form of Government	Median	Count	Max	Min
Strong mayor	6%	47	23%	-6%
Council-manager	11%	46	35%	0%
Hybrid	9%	6	21%	-2%
City commission	12%	1	NA	NA

Source: Ballotpedia, Largest cities in the United States by population, 2024.

As we noted in our first report in this series, voters in the City of Nashville and Davidson County voted in favor of consolidating their governments in 1962 to address the issue of a booming suburb that lacked urban services such as fire protection and sewer and water infrastructure. Indianapolis, IN consolidated its metropolitan government in 1970 while Louisville, KY consolidated its government in 2003. All three cities were found to have experienced population and economic growth in the years following consolidation, suggesting that such metropolitan government consolidation has potential benefits, if done right (Wachter et al 2019). At the opposite end of the spectrum, Baltimore City began losing population in the 1960s while its suburban counterpart Baltimore County began surging in population. Baltimore City has continued to struggle with population loss for 70 years, while the government of the city and the county remain separate. The multitudinous political jurisdictions in the St. Louis area highlight an extreme, where fragmented governments create uneven access to basic public goods and services and political borders reinforce patterns of racial and socioeconomic segregation (Gordon 2019). Nashville seems to have found a happy medium, where the suburbs receive city services and in turn, they help contribute to the tax base of the city.

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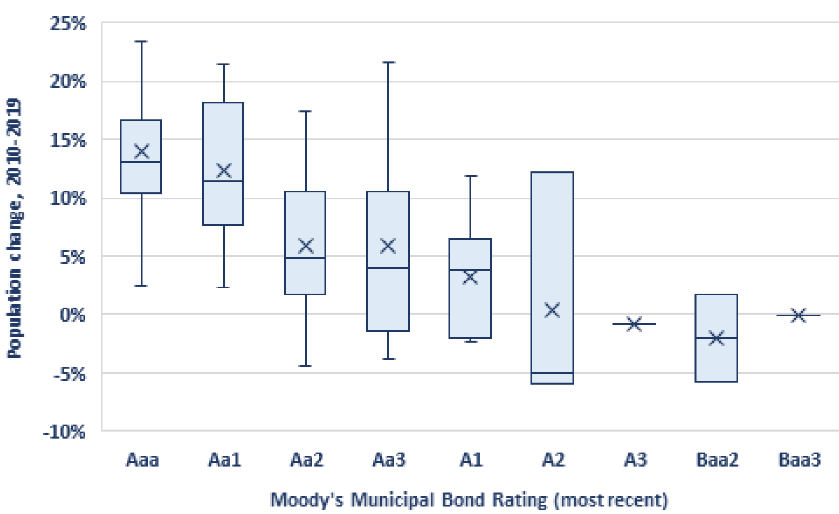
Fiscal Management

Unlike the federal government, local governments have to balance their budgets or risk bankruptcy such as the case with Detroit in the 2010s. The most common way that municipal governments can finance large infrastructure projects and other investments is through issuing bonds.

We used municipal bond rating data on 67 cities from Moody's to look at the relationship between fiscal management (as measured by bond ratings) and population growth (measured by population change. As shown in Figure I, cities with better bond ratings tended to have higher rates of population growth. Cities with Aaa bond ratings and high growth rates include Seattle (23 percent growth), Denver (21 percent growth), Charlotte (20 percent growth), and Tampa (19 percent growth). Between 2009 and present, all 16 cities in our dataset that have Aaa ratings either maintained that rating since 2009 or improved it to Aaa over that time. The same is true for the 10 cities with Aa1 ratings. On the other end of the scale, cities with lower bond ratings (Baa2 or Baa3) and low growth include Detroit (six percent loss), Chicago (no growth), and Newark (two percent growth).

Figure I: Municipical bond ratings and population change, 2010 to 2019

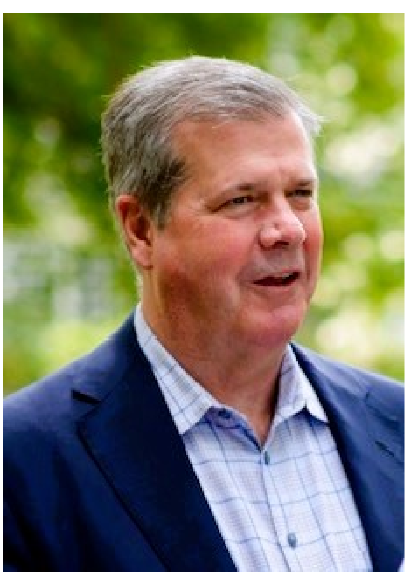


Quality Leadership: A Karl Dean Case Study

Richard Daley was the mayor of Chicago from 1989 to 2001 and Michael Bloomberg was the mayor of New York from 2002 to 2013. During those periods, both cities experienced improvements in quality of life and economic growth. To what extent was the success of those cities due to their leadership? This is a difficult question to answer because it is impossible to know what would have happened in Chicago and New York if Daley and Bloomberg had not been mayors during that time. How important is quality leadership to urban economic growth? While we can't answer this question definitively, we can explore some of the policies and practices that may lead to the success of a city by examining the tenure of Karl Dean who was mayor of Nashville from 2007 to 2015.

One of the most straightforward ways that leadership can matter is in continuity. It can be difficult to achieve all of one's campaign promises in a single four-year term, and very few people who run for mayor don't plan on staying for just one term. Continuity at the top position also means continuity at other leadership positions among local departments and agencies. New mayors may want to clean house and get rid of their predecessor's management if they want to enact new policies and practices that previous leaders were not on board with. Finally, continuity in leadership in the public sector can be a signal to the private sector that long-term investments in business and real estate are less risky, as they don't have to worry about sudden changes. Karl Dean's eight-year tenure in Nashville allowed him to implement significant investments and changes in Nashville that he may not have been able to achieve in a single four-year term.

As discussed earlier in this report, education is an important local public good that can have a profound impact on later life outcomes. Over the course of Mayor Dean's eight years in office, he increased the budget for local schools by 37 percent, with much of this funding directed at privately run charter schools. He developed a comprehensive Children and Youth Master Plan in 2010 that sought to address issues contributing to low graduation rates, such as transit issues, which coincided with a 20 percentage point increase in graduation rates from 2002 to 2012. Mayor Dean started summer academies aimed to improve ACT scores by teaching kids over summer break. He brought Teach for America to Nashville along with the New Teacher Project, both through private funding, although the programs were not without their critics. Mayor Dean also created the Limitless Libraries program, a partnership between Nashville Public Libraries and the school system libraries that drove resources to improve school libraries, and the Nashville After Zone Alliance, a program that increased out-of-school learning opportunities and activities. While some of Mayor Dean's school reform initiatives had vocal critics, his legacy includes a strong focus on education and a willingness to try new strategies to improve student outcomes.



One of Mayor Dean's most visible investments in the future of Nashville is Music City Center, a 2 million square foot convention center in the heart of Nashville that opened in 2013 at a cost of $623 million with the goal of drawing in a national audience for conventions and cultural events. He also spearheaded the construction of the minor league baseball stadium First Horizon Park at a cost of $91 million. While many credit stadiums and convention centers with generating significant economic impacts for cities, economists, and countless research studies, look down on them for not delivering on their promises due to a variety of reasons (Sanders 2002, Siegfried & Zimbalist 2000, Coates & Humphreys 1999). Part of the reason for this line of thinking is what economist Edward Glaeser calls the "edifice complex," the belief that simply building large office buildings, sports stadia, conference centers, and/or large transit projects will revitalize a city. Glaeser argues that what is more important is promoting dense, walkable, vibrant cities that facilitate interpersonal interaction in physical spaces (Glaeser 2012). So, perhaps more important, but less visible and flashy, are Mayor Dean's investments in West Riverfront Park, transforming an abandoned industrial plant into a waterfront green space with public use amenities.

From early on in his tenure, Mayor Dean was focused on sustainability and the environment. In 2008, he created the Green Ribbon Committee on Environmental Sustainability that aimed to make Nashville "a livable city with clean air, clean water, open spaces, transportation infrastructure and a sustainable energy use profile." One of the most significant challenges that faced Karl Dean during his tenure as mayor was the 2010 Tennessee floods that brought record breaking rains which caused $2 billion in property damage, $120 million in public infrastructure damage, and 11 deaths in the Nashville area. Realizing that Nashville needed to be more resilient and adapt to future flood risk, Mayor Dean responded by calling for a $100 million investment in a flood wall and pumping system, which the city council ultimately rejected. However, Mayor Dean was able to pursue other sustainable, green investments in the city including Nashville: Naturally, which aimed to make the city the greenest in the Southeast through a combination of green space preservation and green infrastructure investments. He created a new position in city government to oversee these green initiatives which came to include new incentives for energy efficient homes.

Improving public safety was one of the main focuses of Karl Dean's campaign for mayor, with a specific focus on violent crime reduction. During his tenure, Mayor Dean invested in new public safety facilities, expanded the Metro Police force, and opened the city's first full service DNA crime lab. By 2013, the city had achieved its lowest homicide rate in its history and its lowest rate of violent crime since the mid-1980s.

Karl Dean came in to the mayor's office of Nashville with a multipronged growth strategy that included a business-friendly attitude. This included providing a $66 million tax incentive to healthcare giant HCA to stay in Nashville and a $56 million incentive to Bridgestone Americas, along with other big businesses. However, economists often deride big tax incentives to companies either because promises do not pan out, the consequences of opportunity costs, job creation doesn't materialize, or the winners curse where cities pay more than they would otherwise be willing to incentivize a business to relocate due to competition from other cities (Bartik 2019). Perhaps more important and influential to the city's economic success was Mayor Dean's continued effort to keep Nashville as a hip and cool city and cultural center. He appointed rock star Jack White as the city's Music City Ambassador and created the Nashville Music Council to prove to the world that there was more to Nashville than just country music. Mayor Dean also invested in small businesses through a variety of incentives and neighborhood quality of life improvements such as investments in public transit, parks, libraries, community centers, public health services, and aforementioned public safety improvements.

Mayor Karl Dean's tenure as mayor of Nashville provides insight into the important role that mayors can play in the economic success of a city. Mayor Dean's long-term investments in education, culture, public safety, sustainability, climate resilience, and his business friendly attitude all may have contributed to the long-term success of the city and his two terms as mayor allowed him to see many of these initiatives through.

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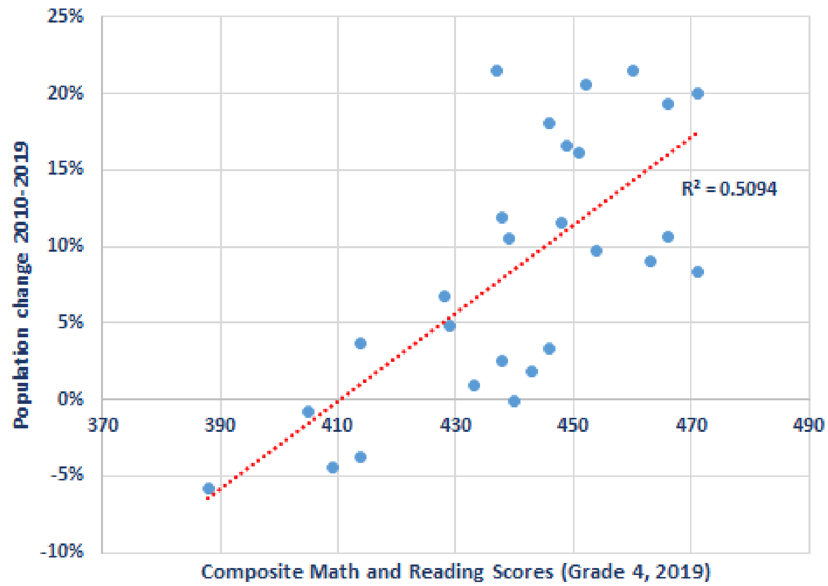
Schools

Public schools are one of the primary public and common goods that local governments provide. Investments in education, particularly in early years, can profoundly impact the economic trajectory of youth (Heckman, 2011). Since the 1990s, an increasing number of big city mayors have taken more control over local public-school districts with varying levels of success (Wong & Shen, 2009). The quality of local public schools is an important consideration for many families when they decide to move and can influence neighborhood choice. As such, successful public-school systems can be a driver of economic growth for cities.

To look at the relationship between economic growth and schools, we compared population growth in large cities to test score data from the National Assessment of Educational Progress (NAEP) for fourth grade math and reading. Figure II shows a clear positive relationship between population growth and composite math and reading scores for fourth graders among 27 large cities. Charlotte had the highest composite score of 471 in 2019 and its population grew by 20 percent between 2010 and 2019. Hillsborough County, Florida (which includes Tampa) had the fourth highest score among the 27 cities and the fifth highest population growth rate (19 percent).

Figure II: Population Change and Test Scores



Source: American Community Survey (ACS)
1-Year, 2019 and The Nation's Report Card District Profiles

At the other end of the scale, Detroit had the worst performing school district with a composite score of 388 and the Midwest city lost six percent of its population from 2010 to 2019. The four worst performing school districts (Cleveland, Baltimore, Milwaukee, and Detroit) all lost population between 2010 and 2019.

Public Safety

High rates of crime can be detrimental to economic growth for a variety of reasons. Most straightforward, crime can increase the costs of doing business through direct effects such as burglaries, thefts, and property damage. Indirectly, high rates (or perceptions of high rates) of violent crime can cause customers and consumers to avoid visiting commercial areas, especially retail and food services industries that rely on pedestrian traffic (Rosenthal & Ross, 2010). This can dissuade businesses from locating in such areas and even entire cities. Violent crime can also impact economic mobility for individuals, as poor people have a greater chance of improving their economic prospects if they live in places with lower rates of violent crime (Sharkey & Torrats-Espinosa, 2017; Manduca & Sampson, 2019). Reductions in violent crime can cause high-income, college educated workers to move into formerly high crime central city neighborhoods (Ellen et al, 2019). Finally, violent crime is an issue that local elected officials have some level of control over given jurisdictional control of police departments and local legislation that could impact crime rates.

To investigate the relationship between violent crime and urban growth, we looked at population growth among counties with more than 100,000 residents in 2019 and compared their population growth from 2010 to 2019 with changes in their violent crime rates over that period. Among these 380 largest counties, we found that reductions in violent crime rates were correlated with population growth. Over this period, most counties experienced reductions in violent crime, with the median county experiencing a 19 percent decline. Among the 10 fastest growing counties, seven had violent crime rate declines of 24 percent or more. This group includes Rockwall County, Texas (near Dallas) whose population grew by 33 percent while its violent crime rate declined by 53 percent and Sumter County, Florida (near Orlando) whose population grew by 40 percent while its violent crime rate declined by 44 percent. Davidson County, home to Nashville, saw its population grow by 11 percent over this period while experiencing a violent crime reduction of 23 percent. Among the 20 fastest growing counties, 85 percent experienced reductions in their violent crime rates between 2010 and 2019. Meanwhile, among the 20 slowest growing counties, only 65 percent experienced violent crime rate reductions.

Similarly, we found that most counties that experienced increases in their violent crime rates saw population growth below the median (five percent) between 2010 and 2019. This group includes Schuylkill County, Pennsylvania (just outside Allentown), which saw a 62 percent increase in its violent crime rate over the period and lost five percent of its population, and Oswego County, New York (just north of Syracuse) which saw a 52 percent increase in its violent crime rate while losing four percent of its population.

Taxes

Property taxes are the primary source of income for most cities and are used to fund a wide variety of services and infrastructure. As discussed in previous sections of this report, quality local services such as education, public safety, and poverty reduction can be important drivers of economic growth and require local investment. However, a high tax burden could impact the locational choice of individuals, preferring low tax cities to high tax cities, all else equal. Yet the empirical evidence of the relationship between migration and taxation is small and mostly focused on the wealthiest individuals, workers at the top of their field, and high earners without location specific jobs (Kleven et al, 2020).

To observe the relationship between population change and taxes, we look at median property taxes and population change between 2010 and 2019 in counties with over 200,000 people. As shown in Figure III, there is a negative, but weak, correlation between median property taxes and population change in large counties. The county with the highest population growth rate, Hays County, Texas (near Austin), had somewhat high taxes of $5,705, but the county with the second highest growth rate, Osceola County, Florida (near Orlando), had very low taxes of $1,982. Excluding Osceola County, the counties with the 10 highest rates of growth all had median property taxes between $3,000 and $6,700, which was on the higher end for taxes. Among the counties with the lowest population growth rates over this period, all had median property taxes below $3,600 (with the exception of Atlantic County, New Jersey). This might not be surprising given that low median property taxes tend to reflect low land values in places that are not in high demand to live, such as Detroit, St. Louis, Cleveland, and Baltimore.

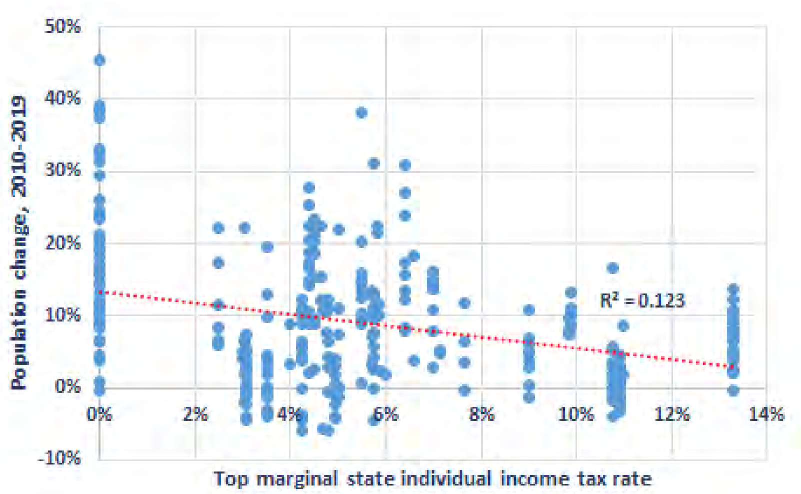
Figure III: Median Property Taxes and Population Change, 2010 to 2019

Source: ACS 5-year estimate 2021, Median Property Taxes Paid by County
Note: Median property taxes are top coded at $10,000, which includes nine counties n the New York City Metro Area.

However, as seen in Figure III, there is a wide range of growth rates among places with the lowest property taxes. Montgomery County, Alabama had the lowest median property taxes ($533) and lost one percent of its population between 2010 and 2019, while Horry County, South Carolina (near Myrtle Beach) had the fourth lowest taxes ($725) yet its population grew by 31 percent. Figure III also shows that counties with the highest median property taxes tended to experience slower growth rates. The counties with the 15 highest taxes paid all had growth rates of six percent or less, and among the counties with the 30 highest taxes paid only three had growth rates above the median of eight percent.

Property taxes are not the entire picture either, as state and local income taxes impact the overall tax burden experienced by residents of different cities. Seven states have no income tax: Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, and Wyoming. Fourteen states have a flat income tax, including Arizona, Colorado, Michigan, Kentucky, and Pennsylvania. The remainder of states have graduated-rate income taxes where higher earners pay higher rates, including Alabama, California, Louisiana, New York, and Virginia. As shown in Figure IV, there is a much stronger relationship between a state's top marginal individual income tax rate and large county population change than there is for real estate taxes shown in Figure III. Counties with higher growth rates tended to be located in states with the lowest income taxes. Among the 100 counties located in the 13 states with top income tax rates above seven percent, none experienced growth rates of more than 20 percent in the decade from 2010 to 2019, while the 37 counties with the highest growth rates all had top income tax rates below seven percent and among those 17 had no income tax. Among the 48 counties that lost population over this period, only one of them was located in a state with no income tax.

Figure IV: Top Marginal State Individual Income Tax Rate and Population Change, 2010 to 2019



Source: ACS 5-year estimates. Tax Foundation, 2024.

Conclusion

The findings of this report underscore the critical role of good governance in fostering dynamic and vital cities. We analyze the role of forms of government and find that council-manager structures tend to foster higher growth rates. Furthermore, cities with strong fiscal management, indicated by high municipal bond ratings, are better positioned to grow and prosper. The case study of Karl Dean's leadership in Nashville demonstrates how effective leadership, strategic investments, and a focus on education, public safety, sustainability, and cultural promotion can drive significant urban renewal and economic growth. Finally, while tax policies must balance the need for revenue with the risk of deterring residents, the empirical evidence suggests that well-managed tax systems can support sustainable urban growth. We also analyze dimensions associated with governance that affect economic vitality of cities. Quality public schools are instrumental in shaping the economic future of cities, as evidenced by the positive correlation between educational performance and population growth. Cities that invest in robust public safety measures experience reduced crime rates, which in turn attract residents and businesses, contributing to overall economic vitality. In essence, this report illustrates that cities aspiring to emulate the success of places like Nashville must prioritize good governance across multiple dimensions to achieve sustained economic development and improved quality of life for their residents.

21st Century Cities

The 21st Century Cities Initiative at Johns Hopkins University was established in 2014 to strengthen and support understanding of urban issues regarding growth, governance, and public policy.

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