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Nashville’s Star Rises as Midsize Cities Break Into Winners and Losers

Nashville and others are thriving thanks to a mix of luck, astute political choices and well-timed investments, while cities like Birmingham, Ala., fall behind.

Nashville, right, and Birmingham, Ala., left, were peers 40 years ago. The success of superstar cities like New York and San Francisco and substars like Nashville has come at the expense of Birmingham and other smaller cities.CreditCreditLynsey Weatherspoon for The New York Times

By Ben Casselman. Dec. 16, 2018

NASHVILLE — Forty years ago, Nashville and Birmingham, Ala., were peers. Two hundred miles apart, the cities anchored metropolitan areas of just under one million people each and had a similar number of jobs paying similar wages.

Not anymore. The population of the Nashville area has roughly doubled, and young people have flocked there, drawn by high-paying jobs as much as its hip “Music City” reputation. Last month, the city won an important consolation prize in the competition for Amazon’s second headquarters: an operations center that will eventually employ 5,000 people at salaries averaging $150,000 a year.

Birmingham, by comparison, has steadily lost population, and while its suburbs have expanded, their growth has lagged the Nashville area’s. Once-narrow gaps in education and income have widened, and important employers like SouthTrust and Saks have moved their headquarters. Birmingham tried to lure Amazon, too, but all it is getting from the online retail giant is a warehouse and a distribution center where many jobs will pay about $15 an hour.

Amazon’s announcement has been widely described as a rich-get-richer victory of coastal “superstar cities” like New York and Washington, regions where the company plans to employ a total of at least 50,000 workers. But the company’s decisions also reflect another trend: growing inequality among midsize cities.

Nashville and the other Amazon also-rans, like Columbus, Ohio, and Indianapolis, are thriving because of a combination of luck, astute political choices and well-timed investments. At the same time, Birmingham and cities like it, including Providence, R.I., and Rochester, are falling further behind.

Last week, for example, Apple said it would invest $1 billion in Austin, Tex., and could eventually employ 15,000 people in the area, up from 6,000 now. Like Nashville, Austin is a booming state capital with a prominent university and it has a lively music scene.

Nashville started with advantages. But local leaders also made some smart decisions like merging the city and county government in the 1960s, allowing Nashville and its suburbs to work together rather than at cross-purposes. And in the 1990s, when many downtowns across the county were struggling, the city built a convention center, a hockey arena and a new home for the Country Music Hall of Fame.

By contrast, economic misfortune and poor choices have hobbled Birmingham. Once a center of steel production, the city suffered when that industry declined in the 1980s because of foreign competition and corporate bankruptcies. Local leaders tried to pivot by luring banks and insurers, but that bet soured during the financial crisis, and the city hasn't recovered the jobs it lost then.

"A place like Birmingham hasn't fallen off the map, but it's been bypassed by these places that have moved into this more clearly defined second tier," said Adam Kamins, an economist for Moody's Analytics. "It's treading water, and treading water tends to not be enough."

When many downtowns around the country were struggling in the 1990s, Nashville invested in big projects that helped revive its downtown. That was one key to its success. The city has a number of other advantages, starting with being the state capital, which brings in lucrative public investments. CreditLynsey Weatherspoon for The New York Times

Music City Rising

Ask Ralph Schulz, president of Nashville's Chamber of Commerce, why this city has done so well and he begins with the Civil War. Nashville surrendered early, allowing it to avoid the destruction that befell many Southern cities. Union troops used the city as a logistics hub, which laid the groundwork for its postwar economy.

Nashville stood apart in other ways, too. The city was less dependent on manufacturing, in part because being Tennessee's capital brought lucrative — and relatively recession-proof — public investments. Its colleges and universities, anchored by Vanderbilt University, earned it a reputation as the "Athens of the South."

The music business, which grew out of a 19th-century publishing industry, gave the city an international reputation, while the growth of Hospital Corporation of America in the 20th century turned the city into a health care hub.

As a result, Nashville had a diversified economy and an educated work force that left it well positioned for the 21st century. But success wasn't inevitable. As recently as the 1990s, the city was portrayed as a backwater on the variety show "Hee Haw."

Ronald L. Samuels, a local banker and civic leader, recalled being asked about Graceland — which is in Memphis — when visiting New York with the Chamber of Commerce in the 1980s.

"We had to answer the 'Where's Nashville?' question many times," Mr. Samuels said.

Beginning in the early 1990s, though, political, business and nonprofit leaders tried to promote Nashville. State and local leaders adopted a regional approach to economic development to recruit companies such as Bridgestone, Nissan and UBS. Tennessee overhauled its community college system and work force development efforts to align better with the jobs being created.

Starting under Mayor Phil Bredesen, who later became Tennessee's governor, the city invested in big projects that helped revive downtown, a key part of the city's success.

Economists disagree about what policies are most effective at helping cities grow — or if policies matter much. Some, such as Michael Porter of Harvard and Richard Florida of the University of Toronto, have emphasized the importance of cultivating a "creative class" of artists, designers and entrepreneurs. Others, such as Jan Rivkin of Harvard, stress the importance of civic leadership. Pretty much everyone agrees that having an elite university is a big advantage.

Whatever the exact ingredients, Nashville hit on a winning recipe. The urban renewal that began under Mr. Bredesen turned into a boom after the Great Recession, which, thanks to Nashville's diverse mix of industries, was comparatively mild here. The Gulch, a former rail yard and industrial district, was transformed into a vibrant neighborhood full of hip bars, luxury condominiums and boutique hotels.

Tourism took off, thanks in part to the ABC television country-music drama "Nashville." Some of those tourists stuck around: The number of college graduates younger than 35 nearly doubled over a decade, to 155,000 by 2017.

Employers soon followed. Among them are Eventbrite, a San Francisco tech company, and EY, the accounting firm, which last month announced plans to open an office downtown for 600 workers. AllianceBernstein, an investment company, decided in May to move its headquarters to Nashville, from New York, in part because of the big-city-worthy cultural amenities and the small-city cost of living.

The ABC television country-music drama "Nashville" has helped attract tourists to the city, some of whom have stuck around.CreditMark Levine/ABC

The company has been flooded with calls from finance industry workers interested in moving to Nashville, said Karl Sprules, an AllianceBernstein executive who is helping lead the transition.

In recent decades, the most successful cities have achieved a kind of economic gravity drawing the best jobs and most talented workers. That's why few economists were surprised when Amazon chose New York and the Washington area for its big expansion.

But the effect isn't limited to a few urban giants. Mark Muro, who researches cities for the Brookings Institution, likened it to a fractal pattern: Look past the top cities and there is another layer of inequality. "Nashville is not a superstar, but it's at the top end of this next echelon," Mr. Muro said.

Birmingham Plays Catch-Up

The success of the superstars and the substars like Nashville has come at the expense of Birmingham and other smaller cities.

Birmingham's great boom arrived a century before Nashville's, when the region's iron and mineral deposits helped it become one of the nation's largest steel producers. But as the steel industry declined across the country, Birmingham struggled to find a replacement.

A bet on finance and insurance — the city was at one point a significant regional banking center, home to Regions Financial, SouthTrust and AmSouth Bancorp — proved disastrous in the Great Recession, when the area lost nearly 45,000 jobs. The city still has millions of square feet of vacant office space.

But Birmingham also has some significant assets. It has a research university, the University of Alabama at Birmingham, with a top-flight medical school and hospital. Research conducted at the university has helped fuel a budding start-up scene, and an affiliated incubator in a former Sears store, Innovation Depot, is home to more than 100 new companies.

Last year, the city elected a young mayor, Randall Woodfin, who has put economic development at the center of his agenda. He has created a Neighborhood Revitalization Fund to fix up homes and demolish dilapidated structures, and wants to use business tax incentives to help lift wages, not just create jobs.

“As a midsize city, we have to be very intentional about diversifying our economy,” Mr. Woodfin said. “I’m not waiting on Amazon or some other company to come in and save Birmingham.”

The question for city leaders is whether they can overcome the economic forces driving inequality among cities.

Research conducted at the University of Alabama at Birmingham has helped fuel a budding start-up scene in the city. Still, its work force is generally less educated than the work forces in other cities of comparable size.CreditLynsey Weatherspoon for The New York Times

A report released this year outlines the challenge. The study, conducted by the research firm Burning Glass Technologies for local business and nonprofit groups, found that Birmingham lagged in “traded” industries such as manufacturing and technology, which bring in dollars from elsewhere. Instead, it relies heavily on restaurants, retailers and other “nontraded” industries, where money mostly passes back and forth between residents.

Birmingham’s work force is also less educated than the work forces in other cities of comparable size, and its schools aren’t training workers with the skills they need, the report concluded.

Mr. Woodfin faces another challenge: Instead of collaborating, cities and towns in the area often compete against one another. Birmingham proper accounts for just a third of the population of Jefferson County, with cities frequently offering multimillion-dollar tax incentives to lure businesses across town lines.

“It’s less than a zero-sum game — it’s a negative-sum game,” said David Sher, a local business owner who runs a blog on economic issues.

Mr. Sher would like Birmingham to follow Nashville in merging the city and county governments. He noted that Louisville, Ky., saw substantial growth after it did that in 2003.

But even as some look to Nashville as an example, they want to avoid repeating its mistakes. Nashville’s boom has brought congestion and soaring housing costs, making the city unaffordable for many longtime residents, particularly African-Americans.

In May, Nashville voters defeated a ballot question that would have expanded the transit system, which many attributed to a backlash against gentrification and breakneck growth.

“What is the policy, other than growth?” asked Paulette Coleman, a local affordable-housing activist. “If economic growth is only benefiting a small percentage, you just keep getting these widening disparities.”

Those concerns raise questions about Nashville’s future. The city has thrived in part by being an affordable alternative to New York and Atlanta. It may soon have to compete with them directly by trying to become a superstar in its own right.

In Birmingham, Mayor Woodfin said the city must follow a different path.

“I am 100 percent convinced we do not have to be the next Nashville or the next Austin or the next Charlotte,” he said. “We can be the best Birmingham.”

Ben Casselman writes about economics, with a particular focus on stories involving data. He previously reported for FiveThirtyEight and The Wall Street Journal.
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