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How Stimulus Spending Ruined Buffalo

Four decades of subsidies and high taxes haven't arrested the city's decline, but here comes New York's governor with another billion dollars.

By STEVEN MALANGA

Why do cities like Buffalo decline, and what role should government play in promoting recovery?

In his State of the State Address this month, New York Gov. Andrew Cuomo announced \$1 billion in incentives to attract new investment to the beleaguered city by Lake Erie. "We believe in Buffalo," he said, "and we'll put our money where our mouth is." Too bad Mr. Cuomo ignores the factors that help keep areas like Buffalo inhospitable to new investment—namely steep tax rates and the high cost of government.

This is an old story for Buffalo. Ever since the city began losing its manufacturing base in the 1950s and gradually declined into one of America's poorest cities (the poverty rate today is nearly 29%), the federal and state governments have poured hundreds of millions of dollars into subsidized redevelopment schemes that have yielded few tangible benefits.

Buffalo may be the paradigmatic example of why expensive government revitalization efforts often fail. Back in 2004, the Buffalo News estimated that the city had garnered more federal redevelopment aid per capita than any other city in the country, a total of more than half a billion dollars since the 1970s. Yet, the paper noted, the city had virtually nothing to show for the money.



Associated Press

Main Street in Buffalo: Emptied of traffic and stores by a light-rail infrastructure stimulus project in the 1980s.

Officials squandered millions granting loans and subsidies to projects that went bust. There was a proposed trade center near the famed Peace Bridge that was never completed even after the city granted it federally backed loans; a failed shopping plaza on William Street; and several hotels that defaulted on their government loans. Among the past three decades' failures have been a dozen or so businesses in the theater district—"one of Western New York's most heavily subsidized stretches of real estate," said the Buffalo News.

Even when government subsidies spurred actual building, the city has seen little broader economic impact. In the 1980s Buffalo used tens of millions of dollars of federal Urban Development Action Grants to attract private investment in a

few signature developments, like the Key Center office tower in the downtown, and Hilton and Hyatt Hotels. But the projects didn't produce a sustained investment boom elsewhere in the city.

Sometimes these schemes have done real harm. In the 1970s, the federal government decided to invest \$530 million to build a 6.2-mile light-rail system through downtown Buffalo. It was supposed to further spur redevelopment, of course.

Opened in 1985 and anchored by a transit mall that banned cars, the rail line fell well below ridership projections—and downtown businesses suffered mightily from the lack of traffic. As Buffalo landlord Stephen P. Fitzmaurice wrote in 2009: "Walk down Main Street on the transit mall; aside from a few necessities like drug and cell phone stores, blight dominates." Last month the city received a \$15 million federal grant to restore traffic to Main Street.

These massive investment subsidies failed partly because officials were ill-suited to select the right projects and often instead gave money to favored insiders. Even former Mayor Anthony Masiello described the federal government's redevelopment funds as "a politically motivated system trying to please everybody."

But Buffalo also struggles because it remains among the highest-taxed localities in the country. According to Cato Institute scholar Dean Stansel, a Buffalo resident pays 25% more in income taxes than does the average resident in America's 100 largest metro areas. Buffalo's 8.75% sales tax, according to the Tax Foundation, is the fifth highest among the country's 120 cities with more than 200,000 residents. And the property-tax burden in Buffalo and surrounding Erie County ranks in the top 10% nationwide.

These taxes have gone to support a spendthrift local government that nourishes itself at the expense of the private sector. In 2003, then-Gov. George Pataki appointed a financial control board to audit Buffalo's finances. The Buffalo Fiscal Stability Authority accused city government of financial mismanagement, inadequate oversight, and fragmented record keeping. It detailed numerous wasteful practices in city government, including loading employee contracts with expensive provisions.

The city's virtually insolvent school district, for example, paid for elective cosmetic surgery for its teachers and other staff. "Buffalo must have the best looking teachers in the country," says John Faso, a former member of the control board, which lobbied unsuccessfully to have the perk ended. It continues today, to the tune of some \$6 million a year.

The city also struggles to cut spending because of expensive state-imposed mandates, including a union-friendly binding arbitration law that results in rich public-employee contracts, and a state law that allows unionized public workers to continue receiving the benefits of a contract—including pay increases—even after the contract has expired. Good luck getting concessions from union leaders in new contract negotiations under such conditions.

But Mr. Cuomo says little about relieving hard-pressed municipalities by lifting such mandates, even while other governors have already signed laws lessening the fiscal burden on local governments. New Jersey, for example, eliminated binding arbitration, which often favored unions, and enacted a new arbitration law that allows cities and towns to impose a settlement when there is an impasse in contract negotiations. Nor did Mr. Cuomo address New York's steep tax burden, the second-highest in the country. Instead of cutting that burden, he recently raised income taxes on the wealthiest New Yorkers.

In the Empire State, the official version of Buffalo's decline is that the city lost its manufacturing jobs to cheap overseas competitors. But the flight of blue-collar jobs from upstate New York began in the late 1950s when businesses and investment bolted to more competitive American states, not to foreign countries. Today, business executives consistently rank New York one of the least desirable states in which to open or expand a business.

Another billion dollars in government subsidies for Buffalo won't change that.

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