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## Revitalizing Buffalo: Let's Take the High Road

### Abstract

Recently, Buffalo awoke to find that it had become the second-poorest major city in the nation, trailing only Detroit. We are also second in rate of abandoned properties, right behind St. Louis. Everyone agrees that we are a city in need of some economic development. But what type of economic development do we need? As debates about the casino and Bass Pro demonstrate, the answers to this question vary widely. Most observers, however, would probably agree that the current system is not working well and could benefit from vigorous public discussion and reform.

### Keywords

Buffalo, Economic Development, High Road Economic Development, Report, Other, PDF

## **Revitalizing Buffalo: Let's Take the High Road**

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Recently, Buffalo awoke to find that it had become the second-poorest major city in the nation, trailing only Detroit. We are also second in rate of abandoned properties, right behind St. Louis. Everyone agrees that we are a city in need of some economic development. But what type of economic development do we need? As debates about the casino and Bass Pro demonstrate, the answers to this question vary widely. Most observers, however, would probably agree that the current system is not working well and could benefit from vigorous public discussion and reform.

### **The Current System**

We have a bewildering array of government entities active in economic development, spending millions of dollars each year. For example, the Empire Zone program costs the state \$500 million per year. State-wide, Industrial Development Agencies (IDAs) provide about \$400 million in tax exemptions each year. The New York State Power Authority gave discounted power worth \$180 million to western New York companies last year. And that's just the beginning; there are countless other state and local subsidy programs.

What are we getting for all that money? Unfortunately, not a lot of jobs. Our biggest economic development programs have an abysmal record in meeting job targets.

- An audit of 6,500 companies that received benefits under the Empire Zone program showed that 3,000 of them fell “substantially short” of their job creation goals for 2005.
- A study of the IDAs' performance in 2005 revealed that of 217,00 jobs promised for 2005, only 79,000 were actually created. One quarter of IDA-subsidized projects actually cut jobs, rather than adding them, in 2005.
- Of the 98 local companies receiving Power Authority subsidies, 23 did not meet their job quotas between 2003 and 2005.

Even when projects do generate jobs, there is little evidence that they are helping to revitalize distressed areas. Too often, the subsidies benefit those who do not need them: subsidizing spec office space in Amherst or luxury condos on the Buffalo waterfront.

Also, not all “new” jobs are really new. If Bass Pro opens a new store in Buffalo, will it really create new jobs, or will it simply replace existing jobs by taking business from

local sporting goods stores? Bringing a new company to Buffalo does not necessarily make the local economy bigger or add to the total number of jobs.

**Good Jobs**

Even when it does create jobs, our current system does not always create good jobs. It does not recognize that dead-end jobs paying poverty wages are part of the problem, not part of the solution.

Buffalo’s latest increases in poverty did not come from unemployment. The unemployment rate in the Buffalo metro area for 2006 was 5.0%, the lowest it had been since 2001. Even within city limits, unemployment actually fell from July 2006 to July 2007, from 6.7% to 6.3%. That’s higher than the rate in Amherst (4%), but not enough higher to explain Buffalo’s poverty.

Most people living in poverty are working. They are just not getting paid enough. In 2007, the federal poverty guideline for a family of four is \$20,650. Here are the median wages for some common, low paying jobs in western New York.

Occupation	Number of Workers	Median Wage
Food Preparation / Serving	53,940	\$16,800
Maintenance/Cleaning/Landscaping	22,060	\$20,920
Retail Salespersons	20,410	\$18,360
Cashiers	18,930	\$15,840
Personal Care and Service	15,040	\$18,900
Teachers Assistants	9,410	\$20,630
Nursing Aides, Orderlies	8,580	\$23,790
Stock Clerks and Order Fillers	8,300	\$19,700
Home Health Aides	6,810	\$21,700
Security Guards	5,140	\$18,070
Child Care Workers	4,150	\$16,710
Packers and Packagers	2,680	\$18,670
Personal and Home Care Aides	2,280	\$19,120

This is not an exhaustive list, and it already includes 180,730 local jobs for which the median wage is below or just over the poverty line.

The fact that a job is not necessarily a ticket out of poverty has important implications. When a company asks for a subsidy in order to add “jobs,” we need to ask what kind of jobs that company is adding. Do they pay a living wage? If not, then the public will end up footing the bill for the supplemental assistance – Medicaid, Food Stamps, etc. – that will enable those workers’ families to survive. Retail jobs, as you can see from the chart, often do not pay a living wage. Neither do most tourism-based jobs, such as hotel maids and food service workers. If they did, cities like Niagara Falls would be a lot more prosperous.

## **Inequality**

The Buffalo region may have a weak economy compared to some parts of the nation, but it remains very productive, generating large amounts of wealth. The region's total personal income – all the income received by residents in a given year – actually rose 7.5% from 2003 to 2005 to reach a total of \$36.7 billion. This ranks us 48<sup>th</sup> in the nation, a reasonable spot for the 46<sup>th</sup> largest metro region. Our workers are skilled and productive. Since 2000, productivity in New York has risen 1.8% per year, even while wage growth has averaged less than 0.2% per year.

We are producing wealth, but for whom? New York has the widest income gap between the rich and the poor (and the rich and the middle) in the nation. The State Budget Division projects that the wealthiest five percent will take home 46% of the state's total income in 2007. As we have seen throughout the Reagan and Bush eras, economic growth can coexist with deepening poverty. Trickle-down theories have proven to be abject failures.

In Buffalo, economic inequality corresponds very closely to racial inequality. Buffalo is the eighth most segregated metro area in the nation, out of 331 regions ranked. While the child poverty rate for whites is only 9.2%, for African-Americans it is 44.3% and for Hispanics it is 46.5%. Any good economic development system will have to do more than spur growth; it will need to increase equality.

## **Suburbanization**

A closely related form of inequality is the divide between suburbs and city. Between 1950 and 2000, the city's population fell from 580,132 to 292,648. Meanwhile, the portion of the county outside the city grew from 319,106 to 657,617.

The single biggest reason for Buffalo's high poverty rate is that so many wealthy and middle class people have left the city. Their flight has created a vicious circle, in which abandoned housing and commercial blight lead to further declines in property values and further disinvestment in the city. The median income for the region as a whole is \$42,831, but for the city it is only \$27,850.

Our region's development pattern is "sprawl without growth." Between 1950 and 2000, the regional population grew only 7%, but the urbanized area nearly tripled from 123 square miles to 367 square miles. From 1980 to 2006, the region's population declined 5.8%, but the sprawl continued, with the urbanized area growing 38%.

From 1990 to 2000, when the number of vacant housing units in the city was rising from 15,535 to 22,854, the housing stock of the rest of the county was expanding by 20,134 units. By 2000, the city had 10,170 vacant residential lots and 8,684 abandoned structures. We are abandoning our urban housing stock and replacing it in the suburbs. Our sprawl is an ecological disaster, causing:

- The loss of farms, woodlands, and wetlands for new development;

- The extraction of the lumber, metal, concrete, and other materials needed for the new buildings and infrastructure;
- The demolition and disposal of the old buildings from the city; and
- The increased vehicle pollution caused by our sprawl.

Unfortunately, our economic development system aids sprawl, rather than combating it. Rather than having a single IDA that prioritizes development in the neediest areas, Erie County has six IDAs, one for Erie County and one each in Amherst, Clarence, Concord, Hamburg, and Lancaster. The Good Jobs First study “Sprawling by the Lake,” found that Buffalo, with 30% of Erie County’s population, received only 17% of the IDA property tax exemptions. Buffalo had 113 IDA projects in 2005, while Amherst – no one’s idea of a blighted region – had 178.

Naturally, the IDAs end up competing with each other, and Amherst often wins the competition. Several years ago, the Amherst IDA awarded \$1 million in tax breaks to an orthopedics practice that moved doctors from Buffalo to Amherst. Because IDAs give exemptions from county taxes, that meant that Buffalo residents were paying to move their own doctors out of town.

### **Governmental Accountability**

In addition to being fragmented, our economic development system lacks accountability, in part because it is operated by a tangled mess of public authorities operating without real public oversight. In a 2004 report, the State Comptroller counted over 640 public authorities, responsible for over \$100 billion in state debt, and called them “unaccountable to the government or the people of New York State.” The Comptroller’s 2006 report found widespread waste and impropriety among authorities, including failure to follow competitive bidding requirements, failure to record lobbying activities, and lack of commitment to Minority/Women Business Enterprise goals.

Buffalo should change its moniker from the Queen City to the Authority City. We have two local control boards. We have six IDAs in one county. We have the Buffalo Economic Renaissance Corporation (BERC) and the Buffalo Urban Renewal Authority (BURA), the Sewer Authority and the Water Authority. We have the Erie Canal Redevelopment Corporation in charge of one of our greatest assets. We have authorities like the Power Authority and the NFTA controlling crucial development resources, even though they should not be in the development business at all. What citizen can even keep track of all these entities and understand what they do, much less have a voice in their decisions?

### **Corporate Influence**

If residents understood more about our economic development system, they would be alarmed at how it favors large corporations, not people in poverty, distressed neighborhoods, or locally-owned businesses. Here are a few examples from the last year:

- The Power Authority gave two large chemical companies, Occidental and Olin, 29% of the discounted power, for a total subsidy of \$53 million. Their subsidy amounted to \$126,155 per employee.
- Time Warner got a \$6.48 million break on its sales taxes from the Erie County IDA– not to create jobs, but simply in exchange for a promise not to cut more than 50 jobs.
- HSBC, Europe’s largest bank, received \$79 million in tax breaks from the Amherst IDA to expand a data center. According to the *Buffalo News*, that was \$6.6 million for each job created.

A subsidy system that favors a few big corporations has many flaws. First of all, it is unfair to other businesses – witness this quote from *Forbes Magazine*:

For decades now targeted tax incentives have been a favorite elixir of state and local politicians in depressed communities. But targeted tax incentives don't spur real growth. Quite the contrary . . . targeted tax incentives are inevitably financed at the expense of established businesses.

In other words, when one company gets a tax break, someone else is footing the bill: the other companies and residents of that municipality. The current system is particularly unfair to small businesses, which lack the resources, expertise, and political clout to compete for subsidies with big corporations. Our most rooted companies are at a disadvantage precisely because they are the least likely to threaten to leave town and demand a subsidy in return for staying.

Using tax subsidies to lure or retain big companies is not just unfair, it is also unnecessary. In his book, *The Great American Jobs Scam*, Greg LeRoy quotes former Alcoa CEO and Treasury Secretary Paul O’Neill:

I never made an investment decision based on the Tax Code . . . If you are giving money away I will take it. If you want to give me inducements for something I am going to do anyway, I will take it. But good business people do not do things because of inducements . . .”

When you offer a company tax subsidies in exchange for jobs, how can you be sure that the company would not have created those jobs, anyway? In most cases, you have only the company’s word for it. And if the company fails to meet its targets, any kind of consequences are extremely rare, as most subsidy programs lack what are called “claw-back” provisions to ensure accountability.

## **Corporate Responsibility**

You might think that before HSBC got a \$79 million subsidy, there would be a spirited public debate about whether that company advanced the public good. In HSBC's case, you might expect a serious discussion of its role in subprime lending. HSBC bought the notorious predatory lender Household International in 2002. In 2006, 63% of HSBC's mortgages were subprime, including 6,295 loans with rates at least eight percentage points over the Treasury level. This is the kind of lending that has devastated inner city neighborhoods around the country, leading to poverty, foreclosures, and abandonment. And now, the out-of-control subprime market has triggered a world-wide economic problem. As CNBC senior analyst Ron Isama recently told business leaders in Buffalo, the subprime mortgage mess is "the biggest threat" to the world economy today.

Apart from specific corporate misdeeds such as predatory lending, there is a more basic problem with a development regime that depends on big corporations. Legally, the corporation's duty is to maximize the profit of its shareholders, not to benefit its host communities. If it is more profitable to shutter a plant in Buffalo and open one in Mexico, a corporation is practically obliged to do it. If a company does have a local loyalty, it will be to the city where the chief executives live – which is not usually Buffalo.

Even responsible companies that follow all the laws have no duty of regional loyalty. And the profits they make, unlike the profits made by locally owned businesses, do not stay in the local economy. They go to far-flung shareholders and distant executives. They do not get spent on houses or residential property taxes in Buffalo; they do not get spent on stores or local sales taxes in Buffalo. In short, helping big business yields much less for the local economy than helping small, locally-owned businesses and local workers, who spend their money here.

## **Switching to the High Road**

Buffalo's Comprehensive Plan, adopted by the City in 2006, includes an appealing vision of Buffalo's future as a city with "beauty, brains, and culture," a green city with energy-efficient buildings and clean waterways, an international city that make the most of our proximity to Canada. But can our current system move us toward that future? If it could, would we still be in talks with Bass Pro?

What if we invested in workers the way we currently invest in corporations? Imagine if we replaced the Empire Zone tax breaks for businesses with tax relief for people with low incomes. That \$500 million would provide a \$2,000 tax rebate to 250,000 low-wage workers. Or imagine that the \$180 million in subsidies granted by the Power Authority went not to corporations such as Olin and Occidental, but instead to a program to rehabilitate inner city housing into quality, energy-efficient homes. If we spent \$50,000 per home, we could renovate 3,600 units of housing per year. Think what that would do for the blighted neighborhoods of Buffalo and Niagara Falls.

Even if we can't find the political will for wholesale reforms such as these, we can make dramatic improvements in existing subsidy programs to make them more accountable to



the public good: to make sure that they create living wage jobs, combat sprawl, and make both companies and governmental authorities accountable to the public. Assembly Member Sam Hoyt offered an IDA reform bill in the last session to do exactly that. While the Senate refused to act on it this spring, Hoyt's bill will have another chance this fall.

We can also shift resources from corporate subsidies to community economic development. Many successful CED programs already exist; they just don't receive nearly the level of funding that the big corporations do. Here are a few examples from Buffalo:

- St. John Baptist Church building 150 new homes in the Fruit Belt neighborhood over the next few years;
- Community Action's Rosa Gibson turning 12 vacant lots into flower and vegetable gardens and a toddler's playground, with neighborhood volunteers and people sentenced to community service tending the gardens, and design students from UB helping create a unique "shoe garden;"
- PUSH Buffalo hiring neighborhood youth to rehabilitate two buildings into eco-friendly, affordable apartments;
- The Apollo Alliance (a coalition of unions, universities, non-profits, and others) bringing home energy conservation to 100 low-income homeowners on the west side this fall.

One could list hundreds more. What they have in common is a focus on fixing up the assets we already have and making life better for the whole community, especially the people in the most need.

Several local groups, including the Coalition for Economic Justice and PUSH Buffalo, recently started a Partnership for the Public Good (PPG) to promote a community-oriented vision of a revitalized Buffalo. PPG has just issued a policy brief called "An Integrated Approach to Fighting Blight and Poverty in Buffalo's Low-Income Neighborhoods." PPG argues that real economic development for Buffalo is impossible without major state, federal, and city resources devoted to a comprehensive, community-based plan to tackle our epidemic of abandoned housing.

You can find the PPG report at the web-site <http://ppg-buffalo.wikispaces.com>, along with

- Principles for a Revitalized Buffalo;
- A policy brief called "Achieving a Greater Buffalo" with many more ideas about building on Buffalo's assets for a greener, fairer, more vibrant future.

Buffalo does not need to start from scratch in seeking revitalization, and it does not need to chase silver bullets or throw itself on the mercy of big business. Rather, as many people have noted, we need to patiently cultivate our assets: our highly skilled workforce, many universities, historic architecture, location near the border, waterfront, cultural diversity, locally owned, independent businesses, active non-profit community, and rich history.

But Buffalo can't go it alone. State and federal government policies promoted the suburbanization that devastated our cities, and state and federal governments must aid in rebuilding them. There are certainly steps City Hall can take, but the resources available to the City are nowhere near what is needed to get the job done. Even city residents who disagree over the casino and Bass Pro should join together to fight for state and federal resources to deal with the basics: fix up our houses, streets, sewers, and parks, clean up our brownfields, and restore our natural environment.