CITY
JOURNAL

FROM THE MAGAZINE

Can Buffalo Ever Come Back?

Probably not—and government should stop bribing people to stay there.

Edward L. Glaeser

Autumn 2007 Economy, finance, and budgets; Cities; Other

At the onset of the Great Depression, Buffalo had 573,000 inhabitants, making it the 13th-largest city in America. In the 75 years that followed, this once-mighty metropolis lost 55 percent of its population, a decline most dramatic in its blighted inner city but also apparent in its broader metropolitan area, one of the 20 most quickly deteriorating such regions in the nation. Twenty-seven percent of Buffalo's residents are poor, more than twice the national average. The median family income is just $33,000, less than 60 percent of the nationwide figure of $55,000. Buffalo's collapse—and that of other troubled upstate New York cities like Syracuse and Rochester—seems to cry out for a policy response. Couldn't Senators Hillary Clinton and Charles Schumer use their influence on Capitol Hill to bring some needed relief?

The truth is, the federal government has already spent vast sums of taxpayer money over the past half-century to revitalize Buffalo, only to watch the city continue to decay. Future federal spending that tries to revive the city will likely prove equally futile. The federal government should instead pursue policies that help Buffalo's citizens, not the city as a geographical place. State and local policymakers could take steps that might—might—help Buffalo stave off its demise, if they avoid the errors of the past. But make no mistake: Buffalo faces long odds.

The history of Buffalo helps us understand why it continues to lose people and why it will be hard to reverse the trend. Historians often overstate the importance of the Erie Canal to New York City's expansion: Gotham grew just as quickly before the canal was dug. But there's no question that the canal, which connected Lake Erie to the Hudson River—and, therefore, the Great Lakes to the Atlantic—was a critical factor in the growth of upstate cities located on it, such as Buffalo. Before the canal, Buffalo had 2,500 residents and specialized in commerce along the Great Lakes. After the canal, the city's population exploded, reaching 8,600 people by 1830 and 18,000 by 1840. Many of those new residents helped transfer goods, especially wheat, from the large boats that plied the Great Lakes to the smaller, 50-ton barges that traveled eastward via the canal. By the early 1840s, Buffalo was moving 2 million bushels of grain a year from boat to barge. It was a revolution in transportation, even more dramatic than the railroads that later gave upstate New York towns vital access to eastern markets and the Atlantic seaboard.

At first, the grain moved by hand. But cities often foster innovation, and so it proved in Buffalo. In 1842, a local merchant, Joseph Dart, borrowed an idea from the brilliant Pittsburgh miller Oliver Evans, installing a steam-driven machine that scooped wheat out of cargo ships on Lake Erie and then dumped it into a silo. Dart's grain elevators could handle 1,000 bushels daily, allowing ships to unload in a single day. They became a noticeable part of Buffalo's skyline and a key element of the city's emergence as the world's leading grain port.

During the early twentieth century, Buffalo first challenged, and then surpassed, Minneapolis as a mill town, and the canal was the main reason. Since so much wheat flowed through Buffalo, it made sense to start milling it there and then to ship the flour onward. Almost half of Buffalo's wheat left the country, much of it sailing across the Atlantic to European markets.

Over time, the city's water-based transportation advantages also encouraged heavy industrial development. The Lackawanna Steel and Iron Company, for instance, relocated its center of operations from Scranton, Pennsylvania, to Buffalo early in the twentieth century. The upstate city's canal location made it easy to ship iron there from the Lake Michigan area, and to turn it into steel with the aid of coal transported north from Pennsylvania.

Buffalo had an extra geographic advantage that helped make it an early-twentieth-century powerhouse: Niagara Falls. The rushing water was a potent source of energy, harnessed to produce the electricity that surged through an enormous underground tunnel to power the city. By 1901, Buffalo took to calling itself the City of Light, so abundant was the electricity delivered by the falls and Westinghouse generators. The electricity would be an added draw for firms, such as Union Carbide and the Aluminum Company of America, that needed plentiful power.

The 1920s were the last real growth period for Buffalo. During the thirties, the city's population began to level off, and after its 1950 high of 580,000, it began to fall precipitously—down 50,000 people by the end of the decade. Buffalo's worst decade was the 1970s, when it lost 100,000 residents and much of its middle class. Today, its population stands well under 300,000.

A major culprit in Buffalo's collapse was a shift in transportation technology, reducing the importance of the Erie Canal and of the cities that arose to take advantage of it. In the 1830s, you would have been mad to set up a manufacturing firm in New York State that didn't have access to the canal or some other waterway. Starting in the 1910s, though, trucks made it easy to deliver products and get deliveries—all you needed was a nearby highway. Rail became more efficient: the real cost of transporting a ton one mile by rail has fallen 90 percent since 1900. Then the Saint Lawrence Seaway opened in 1957, connecting the Great Lakes to the Atlantic and allowing grain shipments to bypass Buffalo altogether. These shocks didn't just hit the New York canal cities; every city on the Great Lakes and the Mississippi River, its water-based advantages eroded, lost industries to areas with cheaper labor costs.

Other trends compounded Buffalo's woes. Improvements in electricity transmission made companies' proximity to Niagara Falls increasingly irrelevant. Mechanization meant that the industry that did remain in the city needed fewer bodies. The appeal of the automobile induced many to leave the older center cities for the suburbs, where property was plentiful and cheaper, or to abandon the area altogether for cities like Los Angeles, built around the car. And Buffalo's dismal weather didn't help. January temperatures are one of the best predictors of urban success over the last half-century, with colder climes losing out—and Buffalo isn't just cold during the winter: blizzards regularly shut the city down completely. The invention of air conditioners and certain public health advances made warmer states even more alluring.

In general, when cities shrink, poverty isn't far behind, for two reasons—one obvious, the other subtler. The obvious reason: urban populations fall because of relocation of industry and drop in labor demand; as jobs vanish, people living in a city get poorer. The subtler reason: declining areas also become magnets for poor people, attracted by cheap housing. This is exactly what happened to Buffalo, whose median home value is just $61,000, far below the state average of $260,000. More than 10 percent of Buffalo's residents in 2000, it's worth noting, had moved there since 1995. The influx of the poor reinforces a city's downward spiral, since it drives up public expenditures while doing little to expand the local tax base.

State and local government did little to improve Buffalo's chances—in fact, they worsened things considerably. First, New York's high taxes, burdensome regulations, and pro-union laws made Buffalo less attractive to employers than its more successful southern competitors. In 1975, the Fantus Legislative Business Climate rankings sorted the American states based on corporate taxes, workers' compensation laws, and many other rules. New York was the least business-friendly of the 48 states in the continental U.S. Being antibusiness might have been feasible when New York enjoyed strong natural advantages, but not after those advantages eroded. Despite 50 years of population loss, Buffalo has one of the steepest metropolitan tax burdens in the country—including one of the nation's highest local property tax rates, according to a 2003 study.

Buffalo also suffered from lousy local politics. During the 1960s, the city government failed to deliver either safety or good schools. Race riots shook the area, and crime rose steadily. Fiscal crises became epidemic. Buffalo had difficulty recruiting police because of low wages and the dangers of the street. Leadership was especially dismal during the late sixties and early seventies, the city's worst years. Mayor Frank Sedita, who faced ceaseless fiscal problems and surging violence from 1966 to 1973, was a traditional urban politician, better at playing to the city's various ethnicities than at confronting its ongoing crisis.

As the 1970s went on, cities began to acknowledge, however grudgingly, that the high costs of concentrated poverty made it disastrous to keep repelling the well-off and attracting the poor. The exodus of the middle class and businesses led many cities to repudiate tax-and-spend left-liberal politicians, who had dominated urban politics in the sixties, in favor of pragmatic leaders promising a better deal for more prosperous residents. In 1977, for instance, New York City voters rejected left-liberals Abe Beame and Bella Abzug and elected reformer Ed Koch. And in Buffalo's mayoral race that year, voters rejected a left-leaning Democrat, Arthur Eve, and embraced James Griffin, the law-and-order candidate of the Conservative and Right-to-Life Parties. Like Koch, Griffin focused on improving basic city services, such as public safety, and encouraging business investment.

But while Koch presided over the first sparks of New York's eventual Giuliani-era renaissance, Buffalo remained mired in poverty and dysfunction because, unlike the Big Apple, it lacked a healthy private sector. Manhattan's financial-services sector created an engine of economic success, with innovation following innovation. During the 1960s, investors developed more accurate ways to assess risk, which in turn made it possible for Michael Milken to find a wider market for riskier bonds. Those high-risk bonds then enabled the corporate takeover movement of the 1980s, which created huge amounts of value by cutting managerial fat and forcing greater efficiencies on firms across America. Later still, the same finance-based innovation dynamo brought more economic success to Manhattan with mortgage-backed securities and hedge funds. New York City, in other words, transformed itself from a manufacturing center into a place that thrived on producing new ideas.

The other old, cold cities that staved off decline, like Boston and Minneapolis, similarly reinvented themselves, with the density that once served to move cargo onto ships now helping spread the latest ideas. The key ingredient: human capital. The cities that bounced back did so thanks to smart entrepreneurs, who figured out new ways for their cities to thrive. The share of the population possessing college degrees in the 1970s is the best predictor of which northeastern and midwestern cities have done well since then.

Buffalo wasn't a particularly skilled city in 1970, and it isn't one now. Fewer than 19 percent of the city's adults boast a college degree; the number in Manhattan is 57.5 percent. Whereas New York always had some industries, such as finance, that required brainpower, Buffalo's industries were invariably brawn-based. Buffalo wasn't a university town like Boston, and it didn't have Minneapolis's Scandinavian passion for good lower education. It had the right skill mix for making steel or flour, not for flourishing in the information age.

Since the 1950s, the federal government has showered billions upon billions of dollars on Buffalo and other failing cities, seeking to revitalize them. The spending reflected a natural, humane impulse. But none of it worked, as Buffalo's entrenched poverty and shrinking population testify.

In 1957, for example, the federal Urban Renewal Association provided more than $9 million ($65 million in today's dollars) to rebuild the Ellicott district in the city's downtown area. The Ellicott rehabilitation followed what became the classic urban renewal script—replacing slums with middle-income housing, commercial development, and more open space. The program removed 2,000 residents, the majority of them black, and relocated many to new public-housing projects. Yet just ten years later, officials were describing the program as a "dismal failure." Despite millions spent, living conditions for the poor seemed no better, and the city certainly wasn't on the mend.

After Ellicott, Buffalo, with Washington's help, turned its attention to redeveloping its waterfront. In 1969, the federal Department of Housing and Urban Development supported the construction of the 40-story Marine Midland Center, a bank headquarters designed by Skidmore, Owings and Merrill. Twenty-seven years later, the public contributed more than $50 million to build the Marine Midland Arena nearby to house hockey's Buffalo Sabres. While the public money created splendid waterfront edifices, it did little to stem residents' flight from the city.

Buffalo's metropolitan rail system, which opened in 1985, is the most expensive of the city's revitalization efforts. The system took over six years and $500 million to build, with most of the money coming from Washington. Many have lauded the system for its cleanness and efficiency. But why sink so much money into rail lines when Buffalo has lots of highways and abundant parking? The system's ridership has been declining steadily for over a decade.

All this spending aimed at resurrecting Buffalo *as a place*—very different from government aid that seeks to help disadvantaged *people*, such as the Earned Income Tax Credit—was destined to fail. Urban migrations aren't random. America's deserts and mountain ranges aren't densely inhabited for a good reason: few people want to live in such harsh places. Similarly, people and firms are leaving Buffalo for the Sunbelt because the Sunbelt is a warmer, more pleasant, and more productive area to live. The federal government shouldn't be bribing them, in effect, to stay in the city.

Such bribes are notoriously ineffective. Scores of close to worthless urban projects have received government funding not because any cost-benefit analysis has justified them but because of hazy claims that they would make some once-great area thrive again. It's almost impossible to imagine that the billions already spent on Buffalo's urban-renewal projects would satisfy any reasonable cost-benefit analysis for helping to reverse the city's decline. The desire of people and firms to move is just too strong. For the government to tear down old houses and build new ones in a place like Buffalo is particularly misguided. The hallmark of declining cities is having an excess of housing relative to demand. Econ 101 teaches us that any further increases in housing supply will just push prices down more.

No mayor ever got reelected by making it easy for his citizens to move to Atlanta, of course, even when that might be a pretty good outcome for the movers themselves. But just because local pols will eagerly seek federal place-based spending doesn't mean that the feds should comply. A sensible federal approach for upstate New York would invest in people-based policies that improve the economic futures of the children growing up there. Education is the best tool we have to fight poverty. If the children of upstate cities were better educated, then they would earn more as adults—whether they stayed in their hometowns or moved to Las Vegas. And people-based policies may actually motivate states and cities to spend more wisely, in order to retain their newly educated and mobile residents.

As for state and local politicians, reducing New York's unnecessary taxes and regulation would be a good idea, since if Buffalo is ever to rebound, even somewhat, private innovators, not government projects, will be the primary reason. Better schools and safe streets would also be key to improving Buffalo's chances of survival. Yet though such policies would improve things, they would not restore the boomtown of the early twentieth century; the economic trends working against such a prospect are simply too great. The best scenario would be for Buffalo to become a much smaller but more vibrant community—shrinking to greatness, in effect. Far better that outcome than wasting yet more effort and resources on the foolish project of restoring the City of Light's past glory.

Edward L. Glaeser is a professor of economics at Harvard University, where he has taught since 1992, and a Manhattan Institute senior fellow.

Research for this article was supported by the Brunie Fund for New York Journalism.

52 Vanderbilt AvenueNew York, NY 10017 | (212) 599-7000