

# Free New York!

Free New York  
Policy Report No. 4

**Bass Pro and Buffalo**

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**How Not to do Economic Development**

**By James Ostrowski**

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Eighteen months after the public was led to believe there was a final deal to do the Bass Pro project downtown, virtually no progress has been made and there is in fact no final legal agreement.

What exactly is the problem with Bass Pro and similar large development projects in Western New York that makes them so complex that they take virtually forever to complete while many are never completed at all?

This is a critical question to answer as it affects the entire future of this community which is struggling to keep up with a dynamic and *fast-paced* global economy. It is critical because the people and institutions now in control of large development projects are the same people or types of people and the same institutions with similar mindsets as those who have presided over 45 straight years of economic decline. Some of these people and institutions have managed, however, to appear to be bringing something new to the table, as opposed to those bad old political and economic actors responsible for the long checklist of major project errors over the last four decades. In fact, *nothing important has changed*.

This is a critical question because it relates to the very nature of the political system we now suffer under in Greater Buffalo. Our current economic development model places large amounts of power and public money into the hands of a tiny number of politically-connected people. These people then use this power and money to keep and *retain a hold on the levers of political power generally*. Almost without exception, they use that power to maintain the political and economic status quo in this area: a system under which the vast majority of us suffer, while a small minority do very well for themselves. It's the same system that has brought us down over the last 45 years.

*Unless we break the back of this powerful and secretive group of economic development bureaucrats and power brokers, there is little hope for a Buffalo economic renaissance.*

This is a crucial question because, due to years of patient effort by citizens and members of the media, the public now fully understands that Buffalo must change the ways its does business or face dire consequences. *That debate is over*.

But an even more important debate is now afoot. *That debate will determine the very future of Buffalo*. The question in that debate is: what is to be done now? As I made abundantly clear in my book, *Political Class Dismissed*, and more recently in *Free Buffalo's plan*<sup>1</sup> to reverse our decline, the actual solution, based on a true understanding of how we got into this mess, is apparent: We must:

1. drastically reduce taxes

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<sup>1</sup> <http://freebuffalo.org/plan.html>

2. drastically reduce regulations that make it difficult to do business here;
3. reduce the power of public authorities and bureaucracies over economic development;
4. decentralize political power away from Washington, Albany and the Rath Building and toward, first the individual and family, then the organic local community and onward toward city, town and village halls, but only when the private sector, the voluntary sector and the free market are clearly unable to handle a particular issue or concern.

There are, however, people who disagree with that approach. While giving lip service to the need for change, they in fact want nothing of the sort. They are merely dressing up the same old failed approaches in the garb of a smiling newness as if there is something new about creating a new waterfront commission to replace the old one.

It is critical to understand that while there has been a revolution in public attitudes in the last few years, and a real grassroots tax revolt, the political machine or political class that has ruled and ruined this town for 45 years is *still in power*. They have not gone anywhere. 25 or so public officials who held power last year are now gone. However, very few have been replaced by *structural* reformers. The same bad old political machine is still calling the shots as cocky and confident as ever, having survived the initial onslaught of a populist uprising.

The political class and machine are like gravity. We don't know the ultimate nature of gravity; it's invisible and scientists still debate over its gray areas. But, we do know that gravity is real; it does exist. Similarly, the political machine is often invisible; they like it that way. It's not always easy to define, but we know it's real. To paraphrase Judge Potter Stewart, like pornography, the political machine is difficult to define, but we know it when we see it.

The point is that we are now engaged in a pitched verbal battle with the political machine over *what is to be done?* The political machine's answer is: let's con the public into thinking that "we get it" but at the same time keep doing the same old thing: using government to increase their power and wealth at the expense of the general public and the future of the community.

So, these are the things that are at stake in the debate over the Bass Pro model of economic development.

Notice what I did not say. I did not say we must change the way we do business in this town or else the old Aud will be vacant for another two years. When weighed against the very survival of our community as a going concern and the avoidance of what I call the *Detroitization of Buffalo*, the fate of one building, abandoned and forgotten by the same folks who now claim they want to save it, is of little relative importance.

Not that I don't think some productive use should be made of the Aud. I do. If the Free Buffalo model had been adopted, the Aud would be open for business at this very moment, reborn in the mind of some clever entrepreneur; speedily rebuilt and retrofitted at reasonable cost and with a minimum of bureaucratic interference. Compare that to the ten years the politicians have allowed it to lay fallow, and the likely six or seven year duration of the Bass Pro deal.

Those who live in glass houses shouldn't throw stones so the predictable response to this essay by the political class that "Free Buffalo is against progress; they're obstructionists," will be a big lie, repeated often as if that makes a lie more believable. The truth is, the political machine, the political class and the economic development bureaucrats are the ones obstructing true progress in this region and on our waterfront. They and their glacial bureaucratic approach are the reasons why the waterfront has hardly changed in 45 years. It looks much the same as it did in the mid-1960's. Thanks, NFTA! Thanks, political class and bureaucrats.

So, with that long introduction out of the way, let's ask: why is this darn project taking so long?

First, the project involves at least *sixteen* bureaucracies:

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| 1. Governor Pataki   | 10. U. S. Senate                        |
| 2. State Senate  | 11. U. S. House                         |
| 3. State Assembly  | 12. U.S. Department of Transportation   |
| 4. New York State Urban Development Corporation d/h/a the Empire State Development Corporation | 13. Federal Transit Administration      |
| 5. County Executive  | 14. Federal Highway Administration      |
| 6. County Legislature  | 15. Erie Canal Harbor Development Corp. |
| 7. Mayor of Buffalo  | 16. New York State Power Authority      |
| 8. Common Council  |   |
| 9. President   |   |

We throw the word "bureaucracy" around a lot but rarely come to terms with its meaning. In short, a bureaucracy is a political body that is given unilateral power over people, property or things, and is therefore not responsible or accountable to those people for the poor performance of their duties. Bureaucrats are not subject to the discipline of the market and the market's profit and loss test. In contrast to private business, bureaucracies have little incentive to satisfy their "customers" or the public since they possess the power to do what they will regardless of public opinion. Bureaucracies also differ from businesses in that their officials' and employees' compensation bears little or no relation to their performance. They are almost always paid the same or more year after year regardless of how dreadful the results of their work are.

Lacking the simple test available to business: profit and loss based on consumer satisfaction with their goods and services, bureaucracies instead function with a set of largely arbitrary rules and regulations which often bear no relationship to reality or common sense. Their members have a strong incentive to rigorously enforce such rules and regulations to preserve their own jobs and power or out of simple spite.

It follows that, since bureaucracies are not generally accountable for their performance, their various projects and programs proceed at a glacial pace. In fact, they have an economic incentive to slow things down because their very jobs may consist precisely of such delaying tactics and obstructionism.

There are at least sixteen separate government agencies or bureaucracies involved in this maddeningly complex plan to refurbish the interior of a building for a sporting goods store. What is true of every bureaucracy separately—they are slow, cumbersome and unresponsive to outside feedback—is true here by a factor of 16! That is why this project will take, from conception to opening as many as seven years.

How do these bureaucrats make decisions about these kinds of projects? Lacking the feedback of market prices for the buying and selling of property and for determining which businesses should open along the waterfront and which should not, *bureaucrats necessarily fall back on personal, arbitrary and subjective factors.*<sup>2</sup> These decisions tend to be made not on the basis of the public good but on the basis of the private good of the decision makers.

It is important to understand that those with operative control over the waterfront do not in fact own its capital value. If they did, do you think the waterfront would have lain fallow for the last 45 years? This is another cause for delay. Each decision maker can hold out for particular proposals and plans and contracts that favor their friends and allies, knowing full well that such delays do not impact their own personal net worth.

Now, let's look at the members of the Commission who we are led to believe have suddenly come to the rescue of the waterfront. Now we have these brave new heroes who will succeed where the others have failed.

Nothing could be further from the truth. Before we go down the list, however, let me point out that we were sold a bill of goods that this commission is locally-controlled. How can a commission which is a subsidiary of the Empire State Development Corporation, controlled by Albany and New York City, and which was appointed at a meeting in Manhattan, be considered locally controlled? It's the same old story. Major development decisions in Buffalo will once again be made by our colonial masters in Albany and New York City, the same crew whose fingerprints are all over our prior failed projects.

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<sup>2</sup> See, J. Ostrowski, "Economics in Five Lessons," Free Buffalo Policy Report No. 3, March 16, 2006.

Now, let's go down the list.

- *Larry Quinn.* Quinn is managing partner of the Buffalo Sabres. Mr. Quinn's fingerprints are on several disappointing major development projects in Buffalo including the Theater District, HSBC Arena and the Hyatt Hotel. He is a large contributor to Congressman Brian Higgins who recommended him for appointment to the board. Quinn's public sector development experience in Buffalo goes back over 28 years. Again, that's not a recommendation given what happened in those years. He has been a real estate developer and therefore will be hard-pressed to avoid conflicts of interests.
- *Jack Quinn.* Quinn was first elected to Congress in 1992 and served until 2004. Quinn presided over Buffalo's decline and the decrepit waterfront in high style, then went on to collect his two pensions and a gargantuan salary as a Washington lobbyist. He has proven his inability make good things happen on the waterfront. He was usually friendly to organized labor so expect him to support construction wage rates at much higher than free market levels—all at our expense.
- *Anthony Gioia.* He's a longtime power broker in Buffalo and a very heavy campaign contributor to the same politicians whose sorry performance have us in the sad state we are in today where we have to bribe companies to move to the city that was once one of the world's leading economic powerhouses. His expertise in development is entirely unknown. He was or is a member of the New York State Urban Development Corporation, an agency with no distinguished record in this area as far as I can tell.
- *Maureen Hurley.* An attorney and executive with Rich Products but who has no known real estate development experience. Her boss, however, is one of Buffalo's wealthiest businessmen, Bob Rich, who is a personal friend of the owner of Bass Pro. That makes for some interesting conflict of interest problems.
- *Charles A. Gargano.* Chairman of Empire State Development Corp., New York State's economic development agency. One website says he "advises the Governor on economic policy, implements key initiatives and programs to strengthen New York State's economic competitiveness, and oversees billions of dollars of economic development projects creating thousands of jobs."<sup>3</sup> That's a harsh indictment given this state's continuing economic malaise and decline. In 2002, the Albany Times Union stated:

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<sup>3</sup> <http://www.renewnyc.com/AboutUs/board.asp>

- *Michael Powers*. An attorney and partner in the corporate law firm of Phillips Lytle. Powers is a politically-connected lawyer active in high-level Republican politics. He is a heavy campaign donor including one payment to Jack Quinn's committee. He has no known expertise at waterfront development. He is or was an attorney for Rich Products and can be expected to be sympathetic to that firm's owner, once again a close friend of the owner of Bass Pro. He was an attorney in a major casino court case, representing a coalition of downtown business owners. If casino issues or issues involving those clients come before the board, will he have a conflict of interest?
- *William Ransom*. Ransom is general manager of WKBW in Buffalo. He is the manager of a successful TV station but has no known development experience. Also, he has a conflict of interest since his news division should be carefully scrutinizing his own work on the Commission. Are they?
- *William M. Collins*, principal of Travers Collins & Company, a large donor to Congressman Brian Higgins with no apparent background in waterfront development.

What can we say in general about this commission? It has very little experience developing waterfronts and the experience it does have mostly involves disappointing results. It's a commission made up of high-powered lawyers, politicians and corporate executives who have been around the sorry Buffalo political scene for many years, in some cases, many decades. There's simply nothing new here; it's the same old power elite that has run Buffalo for many years.

There is not a single person on that board who could be expected to represent the interests of the average resident of Western New York as opposed to the politicians, large institutions and big business.

It's the same old people with the same old tired ideas that have been tried and have failed many times but always seem to work out for the insiders and their friends and allies.

This all adds up to *decision paralysis*—the tendency of public pork barrel projects to take years to complete because the main actors have no personal incentive to speed things along and in fact have an incentive to delay the project until they and their allies have been guaranteed a generous portion of the proceeds.

### **The Bass Pro Deal**

This essay is primarily directed at the general system of economic development in Buffalo. That is not to say, however, there are not serious problems with the Bass Pro deal itself. There are plenty. First, this deal, which involves the expenditure of \$101

million in public money, was engineered by local big businessman Bob Rich while chatting with his Florida neighbor who happens to own Bass Pro. Is that how we decide whether to spend public money to benefit a private corporation? Connections with the high and mighty? Apparently so.

Why not open the project to *all* private companies in a competitive bidding process? I guess the concept of equal protection of the laws is mere baggage from the old days when we had a constitution we took seriously.

Erie County allegedly appropriated \$14 million for this project but calls to three different county agencies failed to disclose precisely where the money is coming from. Is it borrowed? No one knew. Nobody cares, apparently.

Finally, I have contended from the beginning that Bass Pro is not spending \$57 million of their own money, but only \$22 million. That's how I read the memorandum of understanding. Now it has been confirmed that the press and public were misled about how much money Bass Pro was spending. It is in fact \$22 million, which means that the public share is now \$101 million.<sup>4</sup>

### **Free Buffalo's Approach**

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<sup>4</sup> This is the text of an email I received from the Empire State Development Corporation:

From: Wetzel, Deborah [mailto:DWetzel@empire.state.ny.us]

Sent: Friday, February 10, 2006 3:08PM

To: jameso@apollo3.com [James Ostrowski]

Subject: answers to your questions

In response to the inquiry, the MOU signed for the project indicates that Bass Pro would spend a minimum of \$22.0 million of its funds, with \$35.0 million committed from the State, County & City towards the conversion of the AUD to a 250,000 sq. ft. retail store. The total renovation costs are estimated at \$57.0 million.

The seven voting members were initially recommended by the Governor, and the ESDC Board appointed them when it created the subsidiary corporation as authorized by the statute governing the ESDC. The ECHDC has two ex-officio non-voting members (Mayor of Buffalo & Erie County Executive), and one other non-voting member (Melinda Rich).

Free Buffalo is not an urban planning firm. We are frankly skeptical of government planning in general. So, we're not going to put forth a development plan for the waterfront. What we do advocate is this:

1. Get rid of the IDAs and economic development bureaucracies; they are useless and probably illegal and certainly unjust—why should some firms get tax breaks and subsidies paid for by other firms out of taxes? Their record is dreadful. Just look around. If those folks are so good at business development, they are going to love going out into the free market and starting all sorts of new and innovative businesses.
2. Government bureaucrats should have little or no role in determining what buildings, businesses, or projects are built on private property near the waterfront. The vast tracks of land the NFTA has been sitting on for decades should be offered for sale in a fair and open bidding process to any and all comers.
3. Will private development make mistakes on the waterfront? Sure, but because they are constrained by the discipline of the market and the need to anticipate and meet consumer demand, they are much less likely to make mistakes than unaccountable bureaucrats. Further, when private firms make mistakes, they often go out of business and their assets are liquidated and transferred to other entrepreneurs with better track records. The private market fixes its mistakes quickly; public development errors such as the subway line and the closing of Main Street remain with us for many decades.

### **The Corporate State**

The system I have been describing in this essay is a system of government I identified in my book *Political Class Dismissed*: the corporate state. The political left thinks that system is capitalism. It is not capitalism but *corporatism* or *the corporate state*, a marriage between big government and big business with big labor as a junior partner. The beneficiaries are of course big business, big government and big labor. Everyone else, that is, 75 percent of us, *lose out big-time*.

This system is dominated by small, secretive and cohesive groups – political machines – out for legalized graft, whose superior organization, discipline, greed and ruthlessness allow them to seize control of the state and use it for their own confiscatory purposes. This system is based on corporate welfare, extensive control over the economy, and political patronage. It is far from free-market capitalism. In fact, it is precisely engineered to eliminate the individual freedom and competition of the free market. Big business has never been a friend of competition. Competition means they must always live with the uncertainty that someone will build a better mousetrap and put

them out of business. Big businesses such as Bass Pro have frequently sought to use the government to fend off competition from small business. Organized labor likewise has always feared competition from the little guy, the guy willing to work harder for less. Big labor has always wanted to use the state to fend off competition from those poorer than them. That's why their current *bête noire* is [free trade](#).

*The purpose of the corporate state is to deprive the people of their freedom and to concentrate power into the hands of a few large organizations and their leaders. As a result, a tiny number of people wield virtually all of the power. Buffalo, for example, is run by about fifty middle-aged politically-connected businessmen, lawyers and bureaucrats. The same "interlocking directorate"; the same "usual suspects" pop up wherever power is lurking in Buffalo.*

The Erie Canal Harbor Commission is a perfect example of the corporate state in action. Big government is involved obviously--owning huge swaths of the waterfront for reasons lost to the sands of time and spending hundreds of millions of our tax and rate-paying dollars. Big business is fully represented. This committee is virtually Bob Rich's personal plaything. Organized labor is fully represented because Brian Higgins who, judging from his campaign contributors is a wholly-owned subsidiary of organized labor, apparently placed some of his own people on the commission. No doubt all these large projects will feature highly-inflated wages paid to union members at the expense of the taxpayers, most of whom *make less than those very same union workers*. It's a world turned upside down.

[By the way, I tried to find out how these particular men and women were chosen for appointment. Governor Pataki's office ignored my email and phone requests for information.]

Who is shut out of this process? The average citizens who have no input; non-union workers who are left with less money bidding for their services; and of course, small business and family-owned businesses that don't have the connections or wherewithal to compete with large corporations in the game of purchasing political influence.

### **Conclusion**

The model of economic development we see at work with Bass Pro is a failure. It does not work for the community. It works only for the insiders and members of the power elite. They use the political power which they purchased fair and square with campaign donations and trading favors, to avoid the heavy taxes and burdensome regulations that the rest of us suffer under.

Not only is this system inherently unfair and unjust, but it is an obstacle to turning the tide away from 45 years of decline. If the most powerful members of the community have no personal incentive to reduce taxes and onerous regulations for *all* people and *all* businesses, this task becomes virtually impossible.

The worst aspect of corporate welfare is not the out-of-pocket cost to the taxpayers, but rather the *rank corruption* it produces in the political system. Having given the government tremendous power over the economy, the politicians are now in a position to mulct business owners for contributions that give them special influence over how those powers are used.

When the time comes to appoint these secretive, powerful, and largely-autonomous development boards, the politicians reward those donors with appointments so the donors can get their money's worth.

This insidious system has been in place for decades in Buffalo and has been strengthened by the creation of this waterfront commission and the provision of millions of dollars of public money squeezed out of ratepayers by the Albany-based patronage haven, the New York Power Authority.

In short, *nothing has changed*; the political machine rolls on and on and over the rest of us and its operatives will have plenty of money to scoot out of town before the Detroitization of Buffalo is complete.