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Apple, Google deals are 'transformative' but come with costs, says NCCU entrepreneurial leader McKoy | WRAL TechWire

by Jason Parker — April 28, 2021 : 14-18 minutes : 4/28/2021

WRAL TechWire conducted an interview, by email, with [Dr. Henry McKoy](#) is the Director of Entrepreneurship and a member of the faculty in the North Carolina Central University School of Business, and a self-described academic economist with a specialty in economic development. McKoy is also a former official with the North Carolina Department of Commerce, serving as the Assistant Secretary of the North Carolina Department of Commerce for Governor Beverly Perdue. The interview has been lightly edited for clarity.

- **What do the recent announcements from Apple and Google mean for the Triangle?**

The decision of both Apple and Google to locate major hubs and headquarters in the Triangle and North Carolina are huge wins for the region and the state. A huge part of this is psychological. The Triangle has been chasing Silicon Valley, Austin, and Boston for decades, and these recent announcements are a clear indicator to people in the community and those watching from the outside that we are a national and global contender. These companies can locate anywhere, and the decision to locate in our region and state continues to elevate our status as a creative class and innovation hub.

Both Google and Apple will be considered transformative for the Triangle based on their decisions to locate here. Both of those firms come with incredible excitement, and there is real intrinsic value to that. At least at this moment, and for some time being, the Triangle will be considered “the place to be.” The region already had strong appeal, but this is akin to an external stamp of approval. It will certainly be transformative in a physical standpoint also. As Google decides where it wants to locate operationally and Apple builds its RTP campus, there will be many secondary jobs that come from that. The economy will expand.



Dr. Henry McKoy

With Amazon already in the Triangle in the fulfillment space, and these tech giants coming in the form of higher-level jobs, the region is going to be seen as a global innovation hub. People will certainly be proud to call the area home, but will also recognize the challenges that come with such areas, such as rising costs for certain goods or services.

- **YOUR VOICE: [Do you welcome Apple's expansion in RTP?](#)**

The positive spillover is that success often begets success. So as people perceive the Triangle to be the place to be, then it becomes the place to be. It might also have positive spillover effects that are reflected in both the migration of professionals to the region because they want to live and work here, and young people deciding where they want to go to college, or entrepreneurs deciding where they want to launch new businesses. All of those things are positive.

The negative spillover effect is, of course, the price tag of the incentives. According to reports, Google's decision to create an engineering hub did not entail any incentives; whereas the \$1 billion Apple investment is said to be associated with \$845 million. It's possible that depending on how the deal is structured, that the state of North Carolina will come out in the positive related to the investment.

However, such a huge announcement will certainly drive up the cost of future incentive packages relative to future recruitment. The question is whether this ongoing escalation of incentives can keep from overstraining the state's economic model. Not only does companies looking to locate or relocate to North Carolina expect larger incentives, but companies already here might also expect to receive incentives to remain in the state or expand.

- **In recent months, other companies, including biopharma and biomanufacturing companies, have announced expansions in the Triangle or new office facilities in the region. How are those companies, if at all, different from the announcements from Google and Apple?**

All these announcements are similar in the sense that they are promising higher paying jobs for the community. In that realm, those who do economic development recruitment for the state considers these to all be great job announcement. Again, they each speak to the idea of having a 21st century workforce available to work at these organizations. At the end of the day, these are all considered "good jobs" because they invoice innovative and growing industries.

However, although no political leader would say it openly, the landing of Google and Apple – two of the most storied technology companies in the world and among the most valuable – are in their own category of "special." Part of the psychological benefit of these companies to the community and state is that pretty much everyone knows and uses the products and services of these companies. They are popular and well-known. As such, they really sit on pedestals of their own in the marketplace.

- **Tell us more about how the state uses the Job Development Investment Grant (JDIG) and how we can and will know whether the grants provide value for the state and its residents?**

The Job Development Investment Grant (JDIG) is a critical tool in the economic development toolbox for the state of North Carolina. It's rare that any major corporation expands to or locates in a state without some kind of incentive package that includes grants. Calculating the cost benefit analysis for incentives is a very complex undertaking. There are so many tradeoffs that come with this analysis. With high profile announcements like Google and Apple, there really is a positive halo effect that creates real economic benefit. It is difficult to measure all of the additional economic growth that will come from the corporate investment. But it is real. There are certainly costs associated with these types of investments as well. There are impacts on roads, schools, and communities when large expansions happen that have to be factored in as well.

Normally tax revenues from corporations are used to invest in roads, schools, and communities. Often times these grant-based incentives essentially remove that from the economy. This means that the government (i.e. taxpayers) has to make up that cost. This can fall to individuals, families, and small businesses. The devil may be in the details of the incentives and how they are paid out. Each dollar of incentive is generally connected to some deliverable – in terms of a dollar of capital investment or job created. Under this theory, the corporation's investment creates an economic multiplier effect for the economy, that can then easily cover the subsequent incentives package. However, these calculations are not an exact science.

To the question of whether Apple is worth \$845 million in incentives, against their promise of investing \$1 billion? The answer is "probably." Without the incentive, then the \$1 billion overall investment might not come to the state. That is the "but for." The incentive becomes a significant subsidy to the corporation, but it is likely to pay for itself. All incentive packages say that they pay for themselves by their very design, based on the way they have to be structured in North Carolina.

The Apple incentives award is the largest in state history by a significant factor. Apple's incentives are estimated to total around \$845 million. The second largest award is around \$387 million. So its more than double that amount. Apple may also honestly be the most high-profile recruit in state history, since the IBM Corporation at the creation of the Research Triangle Park. Back during those days there really weren't the same kinds of incentives we have now. There are stories of Governor Luther Hodges providing a railroad to IBM to get them to locate here, but beyond that, it was the quality of life and universities that closed the deal. Those things are still factors with every relocation – cost of living, quality of life, universities, workforce talent, and the such – however, corporations now expect subsidies as well as those things.

And it is true that it is hard to fully calculate the positive impact that the location of Apple could have here. It is an “anchor of anchors.” It has a cool factor. If that can have the same impact in the 21st century that IBM had for the Triangle in the mid-20th century, then it really will be the start of something even bigger for the region.

- **What are the risks to pursuing economic development projects such as this one, and how could the state and local governments think about mitigating risk or equitably assigning benefit?**

Both Google and Apple have promised to be good corporate citizens. Google has discussed making significant investments in local affordable housing modeled after some investments they have made elsewhere. Apple also made a significant commitment by announcing that it would create two community funds – one for schools and community organization at \$100 million and one for infrastructure in low-wealth communities around \$115 million. Those are significant commitments.

More states and governments are asking corporations to make such commitments as part of incentive packages they receive.

A skeptic might argue that it is seemingly being paid for by the state through the incentive, but it still has some significance. Certainly there is self-interest in such investments. Innovation regions are notorious for having extremely high housing costs. This is a real problem for locals who are trying to remain in the community, but also a problem for these companies' employees as well. It might be argued that the investment into the community via a corporate vehicle might be more efficient than trying to do it through government.

Those who stand to benefit mostly from these relocations are the well-educated class of the region. They have more corporations to bid for their talents, which can help increase their wages and income. It could be good for small businesses that will benefit either from being direct suppliers to Apple or Google, or small businesses that serve the workers of those companies. There will be ripple effects that benefit a lot of people. It could also benefit universities who would train the workforce for these companies, and attract students who want to one day work for them.

Even with all of these positive outcomes, there could be some losers as well. Both Google and Apple projects seem to be targeted at the higher-educated populace of the region. This could further exacerbate our region's current economic gaps across various demographics, such as education, gender, and race. It is likely to do so if the efforts are intentionally focused on creating more equitable outcomes.

It is important for the collective Triangle region leadership, in partnership with the state, to be intentional about understanding the impacts on equity – specifically racial equity – that these new projects will create. The region and state must decide what kind of domicile it wants to be – one of closing inequities, or one of expanding inequities.

This would be best served by going beyond basic and limited strategies for connecting to historically underrepresented populations, to a more comprehensive strategy. However, it takes a long time to upbuild an ecosystem. An unused strategy could be for the state to simultaneously and actively pursue the recruitment of a large minority supplier of these companies who could co-locate with them to the region. Minority firms have a better track record of hiring minority employees and supporting minority communities. Without some real strategy, the inequity gap will grow with these projects, even as others benefit greatly.

- **With an increasingly competitive talent market, what are some of the indirect effects of companies moving into the region?**

Anytime a project is talking about an average job wage of nearly \$190,000 (Apple) there is going to be significant monies added to the local economy. Indirect jobs could run the gamut from the construction

related to headquarters buildings, to retail outlets, and service organizations. These large projects can also spur entrepreneurial activity in the local economy in the short-term and long-term. It's likely that some, if not many, of these new jobs will be filled by people who currently live outside of the Triangle. Sometimes corporations bring their own workers with them. At other times, people relocate to the "hot" area in hopes of being hired. This could still benefit people locally as job hopping shifts opportunities.

But whenever more people come to a community, and it grows, and they put pressure on the local goods and services, then it creates opportunities for others to create new businesses to serve that increased demand for products or services. Among the greatest indirect benefit is the "innovation halo" that leads others to want to come to the area and take their shot at their own innovative dreams. The key question is how broadly speaking those opportunities will be when they arise – or if the equitable infrastructure – such as capital and resources for historically underrepresented groups will be available to those populations. When this mismatch of opportunities and resources exist in an ecosystem – and certain populations are left out – then it just increases current economic gaps.

The outcomes on home prices and availability are likely to be what one would imagine on housing in the Triangle – values will continue to skyrocket. This region already suffers from tremendously low levels of housing inventory and stock. When there are announcements of thousands of new jobs coming to the area, paying incredibly high salaries, people recognize those workers will have to find places to live. The impact of the Google and Apple projects will certainly push housing prices further up. Investment capital is coming into the region from all over the world to buy land to build new neighborhoods. Since housing is already an area with significant racial and economic disparities, these projects have the potential to expand those gaps. Long-term landlords may be more inclined to sale off rental properties to maximize the market. This will displace current renters – who are often low-income workers.

In addition, because of this increased construction in the local economy, the price of construction labors, materials, and other housing inputs will rise – further increasing housing costs. But as the old saying goes, there is no such thing as a free lunch. If all of this displacement of low-income workers happens, then these large corporations and other small businesses end up with a displaced workforce. If people cannot afford to live in proximity to the places they work – then they cannot work. So this comes back to haunt these very companies for their lower-level workers. There is much to be learned from the trajectory of Silicon Valley. They had to start busing workers in from 60 and 100 miles away on a daily basis.