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If You’re Short Elon Musk’s Companies, You Might Want to Read Ashlee Vance’s Biography

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In a phone call with highly prominent investor Richard Strong about fourteen months ago, he asked me my thoughts on Elon Musk. While I didn’t have deep or detailed opinions on the entrepreneur, I’d written a few opinion pieces over the years making a case that Musk had achieved on a breathtaking level and that the subsidies that have distracted too many wise people for too long had blinded them to his genius. Love or hate the $7,500 federal tax credit that only applies to the first 300,000 or so automobiles sold by electric vehicle makers, no reasonable person would ascribe Tesla’s valuation to purchases made by people way too rich to care about $7,500.

Strong didn’t disagree, only for him to tell me his own Musk story. He’d been short Tesla shares only to come across Ashlee Vance’s 2015 biography of the iconoclastic billionaire (A redundancy? Yes is the answer here), *Elon Musk: Tesla, SpaceX, and the Quest for a Fantastic Future*. He soon closed his short position.

Up front, some will wonder about the review of a book that’s seven years old, but sometimes what’s interesting isn’t read right away. Better yet, Musk was “only” worth $10 billion then, so it arguably makes for a more informative, accessible (to Musk in particular) biography than would be possible now. And since Musk’s reputation hadn’t yet caught up with his immense wealth (Vance actually reports of Musk asking who the top PR person was in the U.S. given the relentlessly bad press he was enduring as the book was being written), a seven-year-old biography could also potentially be more honest than anything written today.

Readers can decide. Vance interviewed hundreds of people for the book, including Musk himself. The view here is that it’s a fascinating read, and happily one free of Vance’s political leanings one way or the other.

Vance began his project in 2012 at a point when it was no longer realistic for the media to ignore Musk. Though his success had been longstanding considering the formation and lucrative sales of Zip2 ($300 million) and Paypal ($1.5 billion), there was a perception perhaps that Musk’s achievements were in the rearview mirror. Maybe with good reason. It’s rare for even the immensely talented to keep hitting home runs. Also, it’s well known that most Silicon Valley start-ups fail, and logically so: these are individuals working feverishly to create an all new future. Except that the people are the market, and the people don’t always take well to change.

Considering Tesla, Vance reports that its doors were opened by single "exit" and very rich entrepreneurs Martin Eberhard and Marc Tarpenning, only for the duo to meet immense skepticism among VCs about the fanciful notion of an electric car. As one friend exclaimed upon hearing of their new company at a Woodside pub, "You have to be kidding me."

All of which speaks to what entrepreneurs truly are, but also to why most of what they introduce or try to introduce belly flops: entrepreneurs believe deeply in something that's viewed as impossible, ridiculous, or both by the wise, and most certainly by the established commercial order. Eberhard and Tarpenning's company was met with near universal VC skepticism other than from the VC who'd made out big with their initial venture (loyalty more than anything led to a small capital commitment), only for the two to win an audience with Musk.

Vance is clear that Musk from the very early days of his "miserable childhood" in South Africa had been interested in the idea of electric cars. Upon his initial move to Canada for college, Musk actually told the daughter of a prominent executive at the Bank of Nova Scotia about his vision for a different way of powering automobiles. Yes, he was a bit eccentric in actions and thought.

Needless to say, Musk quickly relayed to Eberhard and Tarpenning that he was in for Tesla, followed by him becoming its biggest shareholder and Chairman. With Tesla, "a couple of guys" with no background in carmaking (more on this in a bit), but who "really liked cars" had a vision for reinventing the automobile industry. Vance points out that the last successful U.S. car start-up had been Chysler….in 1925. Perhaps more pertinent, the industry was globally crowded with the crowd very much focused on winning U.S. market share. Tesla? Electric cars? Is it any wonder that investors were much more than skeptical?

Of course, with Tesla we're getting way ahead of ourselves. Elon Musk before *Elon Musk* is interesting, as Vance's book reveals. While it's well known that Musk grew up in South Africa, it's less well known that at least on his mother's side, his origins begin in North America. Joshua Norman Haldeman (Musk's grandfather) actually had a thriving chiropractic business in Canada, which on its own speaks to Musk's contrarian ways. Figure that chiropractors have long rejected the conventional wisdom of doctors, and have done so in the face of immense ridicule.

In Haldeman's case he left behind his booming business for South Africa. The father of Maye (Musk's mother) wasn't just contrarian in profession. Opposite the view that kids needed to be raised, Haldeman had the arguably B.F. Skinner-ian view that kids would "intuit their way toward proper behavior," such that there was no yelling in the Haldeman household. Haldeman also had an airplane that he flew around the country. Vance indicates that Musk himself believes he came upon his plainly different ways care of his grandfather. Basically, Elon isn't the first Musk. How interesting it would have been for someone like Haldeman to have been born later, at a time when knowledge had taken such great leaps. It's no reach to say the achiever in Haldeman would have likely accomplished many great things.

So while Musk himself grew up economically privileged (including routine global travel) with a mother who was a prominent model (of the magazine cover kind) and a father (Musk's parents sadly divorced when he was young) who was a successful engineer (Vance reports that Errol

Musk directed $28,000 to Elon and brother Kimbal Musk's first start-up, Zip2), it would be Musk who would get to bring his inherited iconoclasm to the wide world. But first he needed to get back to the North America that his hereditary twin had exited. It was what Musk always wanted.

Vance writes that "from his earliest of days," Musk "plotted an escape from his surroundings and dreamed of a place that would allow his personality and dreams to flourish." Which meant he had to get to the United States. About it, Vance writes that Musk "saw America in its most clichéd form, as the land of opportunity and the most likely stage for making the realization of his dreams possible." Yes!

Though commerce was advanced enough in Pretoria that Musk acquired his first computer in 1980 (a Commodore VIC-20 the manual for which he devoured), brother Kimbal relayed to Vance that "South Africa was like a prison for someone like Elon." The previous truth is something for readers to think a lot about. No doubt Musk is the rarest of rare, but it's the rarest of rare who relentlessly improve the present by re-creating it. The rare elevate us all. The simple truth is that we would likely have never heard of Elon Musk if he'd spent all of his days in South Africa in much the same way that we would never have heard of Andrew Carnegie if he'd stayed in Scotland, or Steve Jobs if his ancestors had stayed in Syria. It raises an obvious question: what is the unseen in terms of non-innovation taking place thanks to ever more sizable barriers to immigration in the U.S.? One argument conservatives have long made against abortion is that the latter could be killing off a future creator of a cancer cure, a great artist, or a sporting genius. Ok, but by the same token what breathtaking advances are we essentially firebombing through rules against foreign entry into the U.S. now? The sad thing is that we'll never know, while also knowing with certainty based on history that we're most certainly limiting progress.

In Musk's case, he made his way to Canada and ultimately Queen's University in 1989, and eventually switched to Penn. While in Canada, a stint as an intern at the Bank of Nova Scotia proved useful exposure to Musk of the industry's stodgy ways; "stodgy" no doubt blood in the water for someone like Musk bent on transforming how things are done. In particular, Musk made a call to an institutional desk at Goldman Sachs during his time at Bank of Nova Scotia, only to ask how much distressed South American debt inventory the investment banking giant had access to. Vance reports that the answer was of the "billions" kind, at which point Musk raced to tell his superiors of a once-in-a-lifetime arbitrage opportunity. From his calculations, South American government debt was trading at .25 cents on the dollar at a time when the U.S. Treasury had agreed to insure the debt to the tune of .50 cents. Remember "Brady Bonds" named after Bush-era (George H.W.) Treasury secretary Nicholas?

Needless to say, the executives at the Bank didn't see what Musk saw. Which was and is the point. The people staffing banks, and in particular highly regulated Canadian banks, were not unique or innovative in thought. Which means that Musk learned a great deal in the presence of individuals who could teach him very little. The lack of knowledge paradoxically gained proved an information gusher for Musk. As Vance puts it, Musk "had an inkling that the bankers were doing finance all wrong and that he could run the business better than anyone else." This insight eventually led to X.com, and the latter's difficult but legendary merger with PayPal. As readers know, PayPal's stature in Silicon Valley lore grows by the day given all the talent Musk and

Peter Thiel brought to one company. Vance tells how Musk was eventually relieved of control of the merged payments systems innovator, and he even wonders what might have happened if Musk had remained in control; as in could Musk have led the combination of X.com and PayPal to even greater heights. About it, books about PayPal are new to the bookstores now, which means the story is still being written. Vance's was as mentioned published in 2015, and it's a reminder yet again that disruption of any industry rarely comes from within the industry.

The above truth speaks as a loud and consistent rebuke of the small minds who populate antitrust, and for that matter the similarly small minds who spend their days worrying about "IP theft" from China, here, or anywhere else. About the antitrust crowd, as a rule they're looking at competition within a specific industry. Except that the combination that led to PayPal and its still prominent payments systems emerged from *well outside the banking industry*. Despite the previous truth, readers might ask themselves a simple question: would the DOJ sit back passively if J.P. Morgan sought acquisition of Wells Fargo and Citi? The question answers itself.

Considering IP theft, we're in many ways talking about something parallel. No one in the automobile industry cared one bit about what a bunch of car enthusiasts at Tesla were doing with EVs. Which was and is the point. What would they steal? What would the banks have taken from Musk and Thiel? The reality is that if they'd deemed their payments visions realistic, they would have long before put both X.com and PayPal out of business. Except that they didn't. That they didn't tells a bigger story than the one about Musk et al. It exposes as very foolish all the time spent on the "market power" presently enjoyed by Big Tech, plus it reveals as ferociously stupid all the conservative nailbiting about IP theft from "China" during the Trump years. Referencing the title of one of your reviewer's books, *They're Both Wrong*.

It cannot be stressed enough that what's innovative is only revealed as such long after it's actually innovative. In Vance's words, while Tesla opened its doors in 2003, few in Silicon Valley or Detroit took it seriously. It wasn't until 2012 and the rollout of Tesla's Model S that Tesla "slapped Detroit sober." Notable there is that having finally woken the powers-that-be up, Musk wasn't locking down his factories to maintain a hold on his secrets. His factories were open given his view that the bigger the market for electric vehicles and players in the EV industry, the better the market for Tesla. Amen.

As always with Musk, we get ahead of ourselves. Retreating somewhat, upon completing two degrees at Penn, Musk headed west. He'd been accepted to Stanford, but the internet bug had already caught him. This led to a now primitive, but then well-ahead-of-its-time online information and mapping company, Zip2. Elon and Kimbal started it, and the stories are very much what one would expect. Days without sleep, loud fights between the brothers, management errors, and all the rest.

The good news is that as mentioned, Musk's first leap into start-up world attracted a $300 million exit care of Compaq. Musk made $22 million on Zip2, while Kimbal pocketed $15 million. This is notable for many reasons, but the most important one is that Musk's gains weren't wholly banked for safety, or spent. He directed $12 million into X.com, which was rare. Having proven his abilities, Musk was better positioned to go to VCs for X.com's financing while placing his Zip2 gains in safer ideas. Instead, he put it to work with an eye on exposing a need not so far met by banks.

The same pattern emerged with his eventual PayPal exit. Rather than sit on his $300 million gains, or spend wildly, Vance reports that Musk once again chose to back his expansive visions with his own money: $100 million in SpaceX, $70 million in Tesla, and $10 million in Solar City. In Vance's words, Musk is driven to build "something that has the potential to be much grander than anything [Howard] Hughes or [Steve] Jobs produced." Vance's bigger or smaller point was that Musk putting so much of his own wealth into his new ideas was kind of rare. Except that as the author notes, Musk's "ready willingness to tackle impossible things" arguably makes it essential that he put his money where his vision is.

More important for the Elizabeth Warren's of the world, Musk is pursuing an all-new future without much rest; for himself, or his employees. Having nearly died from a rare form of malaria after a vacation with first wife Justine, he views vacations in a negative light. They can be dangerous. The guess here is that he can't get enough of what doesn't feel like work to him. Whatever the answer, Musk is a rejection of the idiot left-wing, occasional Hollywood-driven vision of the rich idling away in their mansions. In Justine's words, "Elon would come home at eleven and work some more. People didn't always get the sacrifice he made in order to be where he was." To read Vance's book is to see that in many, or most ways, Justine was actually downplaying the sacrifices made by Musk. How will readers know that? The answer is that Musk very nearly lost his whole fortune from Zip2 and PayPal on the companies (Tesla, SpaceX, and Solar City) that followed.

Figure that the initial Tesla cars weren't very reliable. In Musk's blunt, f-word laden words, "about a third of the cars didn't flat-out fucking work." This was a problem because while Tesla had, in the words of Vance, "produced the fastest, most beautiful electric car the world had ever seen," the need to fill customer orders "would end up almost bankrupting the company." Despite the existence of Tesla and SpaceX (it turns out rocket launches into space are a bit challenging to engineer….) very much hanging in the balance, an occasional employee would express a desire for more family and free time. To which Musk would reply that everyone "will get to see their families a lot when we go bankrupt."

And then 2008 happened. Time of course smooths the rougher edges of the past (which perhaps explains the odd nostalgia that paralyses the thinking of so many), but in the year mentioned it was true that even established corporate names (Morgan Stanley and Goldman Sachs), not to mention legacy automakers (think GM and Chrysler) saw their corporate lives flash in front of them. All four were bailed out. Please keep this in mind with Tesla and SpaceX top of mind. With capital tight to non-existent for established players, imagine the position Musk was in as both companies were slowly running out of money. Please think about all this in consideration of noted Silicon Valley blog *Valleywag* having listed Tesla's Roadster as its #1 fail of 2007. Yet Musk was supposed to find cash for his commercial babies?

Needless to say, the financing environment was bleak. It got to the point that the parents of Talulah Riley, Musk's second wife, had "offered to remortgage their house" to aid his desperate cash situation. Eventually a few lucky breaks, including a NASA contract for SpaceX, saved both companies. And for faux "purists" who will say "taxpayer dollars" saved Musk, try to be serious. Love or hate the space program (there's a good argument for hate), Vance indicates that SpaceX "can undercut its U.S. competitors – Boeing, Lockheed Martin, Orbital Sciences – on price by a ridiculous margin."

After which, it's time for these same faux purists (they know who they are) who opined endlessly about Musk being a "crony capitalist" to hang their heads in shame. And also to publicly admit how wrong they were. Looking back, seemingly the biggest source of ammunition for Musk's oh-so-pure critics was the $7,500/car federal tax credit. There was also a $465 million loan from the Department of Energy that was plainly made available in various forms to all manner of companies doing what the powers-that-be there liked. About both handouts, get rid of them. Of course. At the same time, to pretend as some did that the latter was source of Tesla's viability was thoroughly idiotic. For one, all one needed to do was to look at the eventual skyrocketing valuation of Tesla to see the $7,500 tax credit was irrelevant. That's the case because equity markets are a look into the future, which means even at $10, $20 and $50 billion valuations, it was obvious that investors had looked well beyond the company's ability to sell 300,000 cars. As for the loan, it was paid back with interest.

Of course, to focus on the tax credit and the loan was and is to miss the point. For one, though Tesla, SpaceX, and Solar City were and are alleged beneficiaries of government meddling in the economy, what government gives it also takes away. Vance writes that the "incumbents" in autos, space exploration and solar used their "connections in Washington to make life as miserable as possible on all three of Musk's companies." It's a reminder that wrong as the subsidies were that Musk's companies received, the immigrant from South Africa was hardly unique on the matter. He had visions for changing a variety of industries only to arrive to a business environment that Washington had long before planted its flag in. Better yet, Solar City actually became a multi-billion dollar company at a time when clean tech companies were proving major duds for their investors. Read up on John Doerr and Vinod Khosla if you're doubtful.

At which point it's crucial just to talk about the quality of Musk's businesses. Solar City as mentioned soared into the multi-billion category alongside all manner of failures in the sector, SpaceX proved capable of undercutting its competitors like Boeing and Lockheed Martin by "ridiculous margins," and then there's Tesla. Neither tax credits nor loans can be used to explain the endless challenges that Musk and his engineers overcame on the way to making a car that is a remarkable feat of engineering. The Tesla Model S in 2012 had the highest safety rating in history, it was faster and handled better than its competitors, it had more storage space than the competition did, plus it was the first unanimous *Motor Trend* Car of the Year victor that anyone within the magazine could remember.

And then there are the ways that Tesla autos are repaired. While owners of traditional cars take them in for routine maintenance (a big source of revenue for dealerships) and for anything that requires fixing, Teslas are literally "computers" on wheels. A dodgy door handle or windshield wiper is fixed remotely by engineers working on computers. As opposed to 2022 Tesla models, these computers on wheels are constantly enhanced via computer in the way that Apple iPhones receive routine updates.

Lastly, the early buyers of Teslas also rate prominent mention too when it comes to exposing the foolishness of Musk's tax-credit focused critics. The early adapters were celebrities, CEOs, technology billionaires, etc. To think for even a second that a $7,500 credit would prove meaningful to these people brings new meaning to absurd. People who hand over $100,000 for a car that hasn't yet been made aren't thinking about the tax credit they'll eventually get.

The simple truth is that Musk nearly lost everything. To then act as though he risked everything on a subsidy of any kind is truly ridiculous. Libertarians did themselves and the ideology's reputation no favors with their potshots back in the day. To be fair, however, it wasn't just them.

In particular, there's more that people don't get beyond the droolings about Musk and "cronyism." Which brings us back to Sen. Elizabeth Warren. She's been very critical of Musk the taxpayer, despite the billions he's handed over to Treasury, including an estimated $10 billion+ in 2021 alone. This is important, as it speaks to another unseen. What could Musk have done with those billions? As Vance's bio makes clear, he routinely plows his own funds into existing and new ventures. Assuming Treasury properly taxed capital gains at zero, what innovative ideas would Musk have hatched, or what innovative ideas now hatched could he have directed more money at? The question staggers the mind. The U.S. is so abundantly prosperous, but our plenty is arguably small relative to what it could be absent the long fingers of the political class. No one wins when the innovative (Musk) or even idle rich have their wealth taken from them. The latter is a tax on all of us. On the other hand, when wealth is not taxed, there's the potential for the matching of remarkable minds with crucial capital. Warren deserves the criticism, not individuals like Musk working to create an all new, and much better future.

In closing, I have my own Elon Musk story. Working at a libertarian think tank in 2003, I read about Musk in *USA Today*. It was about his efforts to bring market discipline to space exploration via SpaceX. The Cato Institute had recently published a book by Ed Hudgins about the importance of markets as a way of enhancing space exploration. I sent Musk a copy and asked for a meeting. His office (presumably Mary Beth Brown) responded that he'd read the book, and would take a meeting with me. I told him we had a conference on free markets and space coming up, only for Musk to ask if he could speak at the event. My Cato colleague said the speakers' slots were full….Hopefully readers get where this is going.

The great Elon Musk has been underestimated for the longest time, including by those most likely to share his view of the world. If you're a doubter, read Ashlee Vance's excellent book. If you're an investor who is short Musk, read this book. You're likely to "cover."