



Elon Musk: Once an Entrepreneur, Now a Crony Capitalist

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In the early days, Elon Musk made his fortune the usual way: by creating products and services that people could use, which they paid for using their own money, to improve their lives. Today, however, he has found a better way: using taxpayer guarantees to help fund his new ventures and reduce his risks while he enjoys the profits if they succeed.

In simple terms, Elon Musk has become a welfare queen on steroids, using a government-issued EBT card to help him along.

Musk founded the online payment company X.com, which merged with Confinity to become PayPal. This helped Musk on his way to becoming a billionaire entrepreneur. But now it seems he has found a better — or at least less risky — way to make money: using local, state and federal governments to remove a lot of the risk while leaving him in position to profit if his experiments succeed.

A current example that has just come to light revolves around his current attempts to influence legislation to help SpaceX, his company that designs, manufactures, and launches spacecraft. By employing lobbyists to help push through defense spending legislation backed by Senator John McCain (R-Ariz.), Musk has morphed into the preeminent example of a crony capitalist. Brian McNicoll reported in *The Hill* that Musk “invested” some \$350,000 in fees to a high-powered lobbying firm to promote McCain’s defense spending bill, and then contributed \$5,000 to McCain's reelection campaign and “thousands more to the McCain Institute.”

McCain, for his part, helped Musk’s company SpaceX obtain a government contract to launch military and intelligence satellites into space using its rocket engines, and McCain proposed an amendment that neatly made SpaceX’s only other competitor ineligible to compete for that contract.

With profits from his other successful inventions, Musk is now using taxpayer guarantees to reduce his risks in three well-known highly-risky ventures: SpaceX (space exploration and travel), Tesla (electric cars for the well-to-do, with promises to build some of them for the middle class as well), and SolarCity (solar panels to cash in on the government-funded rush to solar power). He is the CEO of Tesla and SpaceX and the chairman of SolarCity, with major interests in all three, including 27 percent of Tesla and 23 percent of SolarCity. At last count

those three companies employ more than 23,000 people and operate facilities in California, Michigan, New York, Nevada, and Texas.

Each of those states were the “winners” in a Musk lottery, conducted to see which among the various states would ante-up the most in subsidies, grants, tax incentives, and tax deferrals in order to get his business. Nevada serves as an example of how highly refined Musk has become in securing those taxpayer-funded guarantees. Seeking a place to build his battery manufacturing facility — colloquially called its Gigafactory for its promises to turn vacant land into productive property and adding thousands of taxpaying jobs to the local economy — he asked representatives from various state governments to attend a presentation. Four states became finalists in a bidding war for Musk’s “opportunity” — Arizona, Texas, New Mexico, and Nevada — and Nevada secured the opportunity by giving Musk an estimated \$1.3 billion in incentives, far and away the largest giveaway in the state’s history and one of the 15 largest tax and incentives packages in history.

But it didn’t come easily. Nevada offered Musk its “standard” package valued between \$500 and \$600 million, spread out over years into the future. Musk rejected the offer as too stingy, declaring instead that Nevada would have to write his company a check for \$500 million up front or they wouldn’t have a chance in the bidding war. At the time Steve Hill, executive director of the governor’s office of economic development, said, “Really, Nevada wasn’t in a position to directly respond to that, either functionally or financially.”

But after heavy-duty negotiations, Hill gave in, giving Musk nearly \$1.3 billion in tax benefits, including 20 years free from sales tax and 10 years free from property tax, plus other tax incentives, in exchange for Musk’s promise to build his Gigafactory there. Musk told Hill that his facility would create 6,500 “direct” jobs and another 16,000 “indirect” jobs to the state. The deal was so massive that the state legislature had to meet in a special session to consider and then approve the deal.

The largest package prior was Nevada’s offer of a tax incentive package was to Apple, in the amount of just \$89 million.

Skeptics abound, including Martin Kenney, a professor of community development at the University of California-Davis, who said that Nevada “gave away the store.”

When tallied up Musk has managed, so far, to entice governmental entities across the country to provide a taxpayer-guaranteed “floor” under his ventures worth nearly \$5 billion, according to the *Los Angeles Times*. These include “a variety of government incentives, including grants, tax breaks, factory construction, discounted loans and environmental credits that Tesla can sell. It also includes tax credits and rebates to buyers of solar panels and electric cars.”

Musk has managed to mask these subsidies with the promise that, when they succeed, everyone will benefit: “Some may question whether [any of my ideas will actually do] any good for the world. Are we really in need of another high-performance sports car? Will it actually make a difference to global carbon emissions? Well, the answers are no and not much.... When someone buys the Tesla Roadster sports car, they are actually helping to pay for the development of [a] low-cost family car.”

Such a disclaimer hides important questions such as those raised by Veronique de Rugy, a scholar at the Cato Institute and a senior research fellow at the Mercatus Center. After reviewing Musk's conversion from entrepreneur to crony capitalist, de Rugy asked: "Why should so much in government subsidies go to produce a car that only a few Americans can afford?" "Why are taxpayers subsidizing a company that specializes in commercial space travel when the United States has a hard enough time balancing a budget?"

She added:

Musk is a billionaire many times over. If he thinks colonizing other planets is a profitable idea, then he should put up his own money. The taxpayers shouldn't be forced along as passengers on his expensive and risky experiments....

Musk is a case study in cronyism and a shining example of a rich individual abusing his influence to make taxpayers pay for [his] risky investments.