

Behind Tesla's rise, part 1: Tesla's market value and Wall Street speculation

Jonathan Burleigh**23 May 2021**

Electric vehicle manufacturer Tesla has rapidly become a dominant player in the auto industry, at least according to the stock markets. Despite its share price sliding recently under the impact of inflation fears and Bitcoin volatility, Tesla retains a market capitalization in excess of \$559 billion as of this writing, greater than the next three automakers combined (Toyota, Volkswagen, Daimler). The first quarter of 2021 was Tesla's most lucrative yet, with a reported \$438 million in profit.

Tesla's stock price is built on two rotten pillars: the speculative mania gripping Wall Street and the brutal exploitation of Tesla's workforce.

Despite Tesla's recent profitability, the company produces far fewer vehicles than its competitors. Japan-based Toyota, with market capitalization of \$211 billion, sold 9.5 million vehicles in 2020, followed by Germany's Volkswagen (\$148 billion, 9.3 million vehicles), Daimler (\$94 billion, 2.8 million vehicles), and US-based General Motors (\$80 million, 2.5 million vehicles). Thus, Tesla's four largest competitors accounted for over 24 million vehicles in 2020, which is more than 48 times the 500,000 vehicles Tesla sold.

Tesla's staggeringly high valuation has been justified by some financial analysts by pointing to an expectation of rapid growth in its market share over the coming decade. Electric vehicles (EVs) are increasingly seen as an arena to make vast sums of money, with the traditional automakers scrambling over the last year to announce their planned transition away from internal combustion engine vehicles over the next decade or two.

General Motors has pledged that all vehicle sales will be electric by 2035. Daimler, whose namesake invented one of the first automobiles, has halted all research and development into internal combustion engine technology. Volkswagen, Ford, BMW and others have all announced new EV offerings to be released over the coming year.

This shift is due in part to technological developments, particularly cost reductions in lithium-ion batteries, along with the savings expected from the much fewer parts required in EV production. Light-duty passenger electric

vehicles have reached cost parity with gasoline and diesel competitors on a total cost of ownership basis in some markets and are expected to reach parity on an upfront purchase cost basis sometime this decade.

Electric vehicle purchases are being increasingly encouraged through stricter regulatory emissions standards and tax subsidies in the European Union, China and the US. Wall Street speculators' anticipation of increased state support for EVs is a partial cause in the rise in share values for electric vehicle manufacturers such as Tesla (and to a lesser extent, Chinese manufacturer BYD).

Taken on its own, the growing promotion of EVs is inadequate to address global climate change. The major capitalist governments, riven by nationalist divisions and conflicts, are completely incapable of developing the coordinated international solution necessary to substantially reduce greenhouse gas emissions and avert an environmental catastrophe.

Ultimately, the state support for EV production is driven not by altruistic concerns over the impact of climate change and pollution, but rather by the determination of the competing capitalist powers to dominate the next phase of the automotive industry and foster the development of their own manufacturing "champions."

Tesla's share rise and Elon Musk's wealth

Tesla's share price has undergone a staggering rise since the onset of the coronavirus pandemic, from a low of about \$85 a share during the bottom of the market crash in March 2020, to a high of \$880 a share in January this year, before falling more recently to around \$560, nonetheless an increase of 650 percent. For comparison, since March 20, 2020, the Dow Jones Industrial Average has risen by 170 percent, from 19,173 to 33,819.

Driving both Tesla's stock rise and the more "modest" run-

up of other share prices has been the speculative mania gripping Wall Street, fueled by trillions in bailout money from the CARES Act and the Federal Reserve's actions to prop up markets, including the maintenance of ultra-low interest rates and the direct purchase of corporate bonds.

The company's skyrocketing valuation has itself led to a mad dash of investors looking for the "next Tesla," inflating the stock price of a number of EV start-ups and related firms. Many of these have yet to even manufacture a product, but have used the mechanism of "special purpose acquisition companies" (SPACs), also known as "blank check companies," in order to go public and raise hundreds of millions, or billions, in financing. The often dubious character of these enterprises is becoming increasingly difficult to conceal, especially as they become targeted by short sellers betting on their eventual collapse, as in the case of Lordstown Motors.

Tesla has announced plans to increase its offerings and productive capacity, with plans to begin producing its electric Tesla Semi heavy-duty truck sometime this year, and has said it will begin producing its Cybertruck electric pickup at its new Austin, Texas, facility at some unspecified point in the future. A new "Gigafactory" is also being built near Berlin in Germany and is slated to open in late 2021.

However, these anticipated increases in electric vehicle market share only partially account for Tesla's outsized market capitalization and profitability.

Tesla is itself engaging in speculative financial activity on a massive scale, with the company purchasing \$1.5 billion in the Bitcoin cryptocurrency, which has essentially no value aside from being a speculative asset. These Bitcoin holdings accounted for 23 percent of Tesla's Q1 2021 profits, or \$101 million. On May 12, Tesla CEO Elon Musk announced that the company would no longer accept Bitcoin as a form of payment, nominally because of the horrendous amount of energy required for the computationally intensive process of "Bitcoin mining."

Musk has used his social media platform to manipulate the value of cryptocurrencies such as Dogecoin, which itself was created as a joke. In December 2020, the value of Dogecoin rose by 20 percent after a Twitter endorsement from Musk. The cryptocurrency has since plunged by about 25 percent after Musk referred to it as a "hustle."

Musk, who has 52.5 million Twitter followers, has been repeatedly slapped on the wrist by financial regulators, including the US Securities and Exchange Commission, for his social media posts, which regularly and illegally make misleading claims and promises about the company's finances and current and future performance. However, as of this writing Musk is currently the world's third richest man, with a net worth of roughly \$147 billion dollars, which, in

the United States, renders him effectively above the law.

This lawlessness was on full display in May 2020, when Musk, denouncing basic COVID-19 containment protocols such as the shutdown of non-essential businesses as "fascist," defied public health orders and reopened Tesla's Fremont factory. As early as April 2020, Musk was promoting the mass-murder policy of "herd immunity" and touting discredited conspiracy theories that the mortality rate from the virus was very low. Echoing the rhetoric of Donald Trump, shortly before announcing his homicidal reopening plan, Musk tweeted "FREE AMERICA NOW."

Musk's reopening was greeted with full-throated support from the fascistic president Trump himself, who tweeted before Tesla reopened that "California should let Tesla & @elonmusk open the plant, NOW." Not to be outdone in demonstrating its allegiance to the billionaire, California's Democratic Party establishment bent over backwards to allow Musk to reopen, with Governor Gavin Newsom expressing his "great reverence" for Musk.

This campaign to play down the virus and reopen the factory regardless of the very real dangers faced by his workers is closely tied to Musk's insatiable pursuit of money. On May 6, 2020, only five days before reopening the Fremont plant, Musk met a milestone set by the company's backers, receiving 1.69 million Tesla stock options in exchange for keeping the company's average market value at \$100.4 billion, just barely above the targeted \$100 billion for the previous six months. At that time, the options were valued at roughly \$730 million.

In other words, if Musk had kept the factory closed in accordance with basic public health practice, Tesla's market value would likely have dipped below that \$100 billion mark, costing him nearly three-quarters of a billion dollars at the time, presumably about seven times that now, as the company's valuation has risen nearly seven-fold.

The Alameda County Department of Public Health admitted in May 2021 that the reopening resulted in hundreds of documented infections at Tesla's Fremont facilities in 2020 alone, but provided no information about the severity of the cases or the number of those who died.

To be continued



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