

# What's behind Tesla's \$1 trillion market valuation?

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On Monday, Tesla, the leading electric car company, owned by Elon Musk, achieved a market valuation of over \$1 trillion. Tesla now joins Apple, Google, Facebook, Microsoft and Amazon among the ranks of corporations whose market capitalization has surpassed the \$1 trillion mark.

Tesla stock surged Monday upon the announcement that rental car giant Hertz was buying 100,000 Teslas for its rental fleet. As a result, the personal fortune of Musk, already ranked as the world's richest person at \$271 billion, rose another \$36 billion on that day alone.

The spectacular rise of Tesla's valuation is a testament to the illusory character of present-day capitalist growth, spurred by endless sums of money funneled by governments into financial markets. Tesla's rise is also an indication of a general shift in the productive forces toward renewable energy, along with increasing automation.

In the deal reached between Tesla and Hertz, the latter said it would buy 100,000 Tesla Model 3 cars as part of its plan to go electric. The deal is being subsidized, according to reporting by the *Wall Street Journal*, by a 30 percent tax credit expected to be passed as part of the budget bill currently under discussion. Additionally, it is expected that half of these 100,000 vehicles will be made available to rent to Uber drivers.

Tesla's stock price was already on the rise before the Hertz announcement. Between October 11 and October 25, Tesla's share price went vertical. It rose from \$791 to \$1,024 under conditions of a general upward trend in the markets in the first half of October. But even this pales in comparison to the last two years.

Before the pandemic hit, in February 2020, Tesla's share price reached a high of \$180. Today, less than two years later, it is above \$1,000.

Its market capitalization has skyrocketed. At the beginning of 2020, it had a total valuation of around \$80 billion. Now it has surpassed the \$1 trillion mark.

For comparison, Toyota's market capitalization has essentially remained flat from 2017 to the present. For

almost all this time, it has been valued at around \$200 billion. This is despite the fact that Toyota is tied with Volkswagen as the largest car company by revenue. Toyota takes in \$250 billion each year. In contrast, Tesla made just \$31.5 billion last year.

Toyota produces about 10 million vehicles a year, compared to Tesla's production volume of less than 1 million.

The extraordinary growth of Tesla's stock has cemented Elon Musk as the richest man in the world. This comes from both his massive stake in Tesla and his ownership of SpaceX. *Forbes* ranks Jeff Bezos as the next wealthiest man, at \$198 billion.

What stands behind this extraordinary and seemingly bizarre explosion in the value of Tesla?

There are at least three major forces at work.

First, the world's financial markets are awash in unimaginable amounts of money. This may seem surprising to the vast majority of working people, who are struggling to meet their basic needs and facing surging gas and grocery costs. But in the realm of high finance, there is money in super-abundance.

Governments and central banks have been pumping vast sums of money into the markets since the 2008 financial crisis. The US Federal Reserve led the way by adopting the policy of "quantitative easing," a euphemism for electronically printing trillions of dollars in order to buy toxic assets from the banks, depress interest rates and drive up stock prices. This policy has been intensified over the last two years, as governments and central banks sought to stave off a financial crisis and economic slump—perhaps without precedent—in March 2020.

Nearly every leading capitalist power is pursuing the same policy.

At present, in addition to keeping interest rates near zero, the US Federal Reserve is funneling \$120 billion into the financial markets every month.

The resulting debt bubble threatens to implode. Financiers and central bankers around the world are nervous, and rising

commodity inflation and working-class struggle compound their fears.

Tesla has benefited from this environment. With endless cash but few opportunities to profitably invest in traditional industries, finance has rushed toward companies that could disrupt existing markets. Tesla has the potential to do this through its edge in electric vehicles.

The second factor is the shift toward renewable energy technologies. Capitalist profit and national interests make impossible the allocation of resources and the international coordination required to seriously address the climate crisis. But there is a definite movement by capital to transition away from fossil fuels.

Ten years ago there were fewer than 0.1 million electric vehicles globally, according to the International Energy Agency (IEA). In 2020, that number had multiplied by over 100, surpassing 11 million vehicles. Even without new climate legislation, the IEA expects the global number of electric vehicles to rise to 137 million by 2030.

This is a significant shift in auto, one of the world's largest industries. The shift falls far short of what is required to save the planet from the impact of climate change, however.

To meet net-zero carbon emission goals by 2050, the number of electric vehicle sales would have to be 358 million by 2030, according to the IEA. (It should also be noted that electric vehicles must have a carbon-neutral supply chain to truly stop emissions. The minerals and materials required to build these cars rely still on a largely fossil fuel-based production and distribution system).

Tesla remains a global leader in electric vehicles, its sole product. It currently boasts a 520-mile range in its newest model.

A third major component of Tesla's expansion is its bet on new, massive, state-of-the-art facilities for electric vehicle, battery and solar production.

Tesla's original factory in Fremont, California, sits on the site of a former General Motors and Toyota joint venture—the New United Motor Manufacturing plant, which dates back to the 1960s. The *World Socialist Web Site* previously published an exposure of the grueling, unsafe conditions there.

Tesla, however, has built three “giga factories” in the last few years in Nevada, New York and Shanghai. It will soon open up two new giga factories in Texas and Berlin. It is rumored that several more are in the works, as well as additions to existing ones. Tesla boasts that the Nevada factory will in the end be three times the size of New York City's Central Park, making it the largest building and factory in the world. It will be topped with solar panels.

The giga factories are considered to be cutting-edge in

terms of automation. Tesla has bought several leading automated machine companies over the last few years.

This will not make the facilities any less exploitative, but markets are betting it will give the company an edge.

Because major industries require significant capital investments in machinery and facilities, companies have to wait for the machinery to transfer its value to production before updating it. If they did not, they would not reap the full value from their large investment.

This can give newcomer companies, like Tesla, an advantage, because they are free to invest in the latest technology and the largest factories, having few pre-existing factories themselves.

Something should also be said of Tesla's place as a “meme stock.” Elon Musk has created a “green,” “disruptive” entrepreneur persona that has attracted non-institutional investors.

The son of a mining magnate from South Africa, Musk has also demonstrated his capacity to ruthlessly squeeze his workers. He openly courted the far-right with his opposition to the most basic public health measures to halt the pandemic (to which California Democrats capitulated).

In summary, Tesla's valuation is overwhelmingly fictitious. It is a gigantic bet, fueled by the general market frenzy, and liable—like the rest of the economy—to “pop.”

It is not impossible for Tesla to partially live up to the valuation that has been placed on it. The technology being developed at Tesla and other advanced technology firms can play a progressive role in the development of the global productive forces, but only if it is freed from the capitalist framework of private ownership and nationalism.

As economic pressures mount, Tesla and its counterparts will have only one surefooted strategy: further squeezing their workforce to extract ever greater profit, generating ever greater resistance from the workers.



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