

From DeLorean to Tesla

With enough government handouts, a car company never has to break even.



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A Tesla Model X at the company's showroom in San Francisco. *PHOTO: BLOOMBERG NEWS*



By
HOLMAN W. JENKINS, JR.

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There's a reason why European and Japanese auto companies, leaders in cruise control and other automated driving technologies, were slow to bring their innovations to America: the U.S. liability system.

<http://www.wsj.com/articles/from-delorean-to-tesla-1471388304>

Tesla has experienced one fatal crash as a result of imperfections in its self-driving technology—the death of a Florida driver when his car hit a tractor trailer crossing its path. Tesla founder [Elon Musk](#) makes a plausible argument that Tesla’s “Autopilot” is a net improver of safety. That won’t matter to trial lawyers making a case that Tesla didn’t sufficiently flag the system’s limitations. And Mr. Musk himself is guilty of statements that could be portrayed as encouraging excessive confidence in what he calls a “beta” system.

Mr. Musk’s frequent recourse to hyperbole lately has many analysts wondering what Elon is up to. A Journal story this week detailed 20 cases, over the past five years, of him touting financial or production goals that Tesla failed to meet.

In just the past few weeks, he set an implausible timetable for rolling out his mass-market Model 3 sedan. He floated a pie-in-the-sky “master plan” to build tractor trailers and pickup trucks. He justified Tesla’s bailout of another Musk-related company, Solar City, by saying the two would revolutionize the world energy system. Last year, he even casually asserted that Tesla eventually would be worth more than Apple.

His fan, the investor Ron Baron, told the Journal this week: “This guy wants to save the world.”

OK, but another way of thinking about Mr. Musk’s public demeanor is suggested by [a fascinating revisiting](#) of the DeLorean case by economist Graham Brownlow of Queen’s University Belfast.

Mr. Brownlow looks beyond the usual focus on the foibles of John DeLorean, the glamorous renegade [GM](#) executive who set out in 1975 to make a sports car now famous mainly for its role in the “Back to the Future” movies. He borrows a concept from the failures of socialism, known as the soft budget constraint, to note the incentives for DeLorean

to run his company as if more subsidies could always be extracted from British taxpayers, who were backing the start-up auto maker.

Mr. DeLorean himself did not mince words at the time. He claimed that London was “over a barrel” because of the large government sums already invested in the firm.

This might ring some bells with respect to Mr. Musk’s constant flogging of the political and technological prominence of his company.

His recent deal for Solar City may well have been aimed partly at warding off political criticism that Teslas are only as clean as the electricity they run on. His Model 3 plan may have been moved up to pressure Washington over the looming expiration of a key tax credit for Tesla buyers.

While waving off concerns about missed production targets in a conference call this month, he attacked a government agency, the California Air Resources Board, saying its members “should damn well be ashamed of themselves” for not arranging for more lucrative zero-emissions credits for Tesla.

When federal regulators were investigating Tesla battery fires three years ago, he darkly warned that their actions could “delay the advent of sustainable transport and increase the risk of global climate change, with potentially disastrous consequences worldwide.”

The opposite of a soft budget constraint, of course, is a hard budget constraint. As Prof. Brownlow writes, “The more [an entrepreneur] expects that the existence and growth of the firm will depend solely on production costs and proceeds from sales, the more he will respect the budget constraint.”

Tesla is a soft budget constraint company in two ways. It gets plenty of revenue indirectly as result of government policy (consumer tax rebates, fuel mileage credits, HOV permits), not to mention directly in the form of loan guarantees, corporate tax abatements, etc.

But Tesla also gets considerable funding from repeated sales of stock to the public. Though its Wall Street cheerleaders don't emphasize its dependence on political favoritism, Tesla's own disclosures are required to be more candid. Keeping investors giddy about Tesla's prospects therefore implicitly means reassuring them that Tesla will continue to attract the political patronage that has sustained it so far.

Prof. Brownlow makes the point that John DeLorean, whose failure is usually attributed to [hubris or other psychological shortcomings](#), was in fact a brilliant engineer who had just come from a successful run as head of GM's Chevrolet division—so he was capable of running a hard-budget company.

His decisions at DeLorean were rational in a soft-budget sense. He expanded employment at his Northern Ireland factory even as sales fell far short of projections—because he knew that the greater the number of jobs at risk, the harder it would be for the British government to cut him off.

Then, along came a change of government in London, and [Margaret Thatcher](#) did just that.