Episode 1,262: What's the Deal with Elon Musk? And Other Car News for Libertarians

Guest: Eric Peters

WOODS: All right, it's been a while. We've got to get an update on the Tesla and Elon Musk situation. I know people have read a lot of the newspapers, but people are busy. Not everybody has all the details. I certainly don't. But wow, has a lot happened since we last spoke on that front. So I know that you have not been much of a sympathizer on crony capitalism grounds, but regardless of all that, can you just give us an overview of what's going on?

PETERS: Well, he's been acting, I guess, erratic is probably soft-pedaling the way that he's done acting in public, tweeting things that just seem bizarre, at the very least, and legally also very dangerous. As some of your listeners may be aware, he got into trouble with the SEC over a tweet in which he announced that he was thinking about taking the company private, which apparently is contrary to the SEC rules. The SEC levied a $20 million fine against him and removed him as the president of the company, though he's still the CEO and he's still on the board. And rather than kind of back off from confronting the government, he's continued to make even more erratic tweets that it's got investors in his company very nervous. And that's in addition to all of the other problems with the car itself.

WOODS: So what exactly is going on? So is he out now at this point?

PETERS: Well, he's kind of quasi in and out. In my opinion, the whole thing's a relative risk slap in the first place. His net worth is estimated at nearly $24 billion. So this $20 million fine, it's a lot to people like you and I, but for Elon Musk, $20 million is like you or I finding a $5 bill under a sofa cushion. So it's not really a meaningful slap, and not that I favor the government slapping; I'm just making the point that the government's treating him with kid gloves, as far as the financial penalty that was imposed on him. And the other penalty was that he was removed for three years from one of the two offices that he held. He was both president and CEO of the company. He's no longer the president. He is still the CEO of the company. He's still on the board. So as a practical matter, he's still in charge of the company. It was just something that the SEC did to sort of publicly convey that they are unhappy with the way he's been performing lately.

So does this mean anything for the company?

PETERS: Well, it means something in terms of how shareholders feel about the company. I mean, a lot of people have put a lot of money into Tesla, both as investors and as people who are interested in the cars. He touts the fact that — I forgot the number, but it's a large

number of people — many thousands, tens of thousands of people have put down money on his Model 3, which is the — and I put it in air quotes — "the affordable Tesla," the one that's supposed to revolutionize the business and bring this thing away from being sort of a virtue-signaling car for very affluent people to a more economically viable car for average people. The problem is he can't seem to produce that car. He now touts that he's ramping up production of the Model 3, but that's very disingenuous, and this is a characteristic of Elon Musk. Yeah, it's true, he is building Model 3s, but he's not building the affordable one, the one that he touted was going to cost $35,000. The ones that he's building are costing closer to $50,000.

WOODS: Got it, okay. So as always, I have a whole bunch of little items from your website that I want to discuss with you. So before we depart from Musk, what's the ultimate significance of Musk? Why does all this matter one way or the other?

PETERS: Well, Musk was the guy who was put in charge, if you will, of the project of normalizing electric cars. Tesla's been around for about 15 years now, and it's because of Tesla, I think, that the public has been habituated to the idea that this is going to be — and I put it in all caps — THE FUTURE. The electric car is the future. And he put enormous pressure on all the other car companies to make investments in these electric cars, even though there is literally almost no market demand for these things. No free market demand. Electric cars currently comprise about 1% of the total volume of new cars being built, and the only reason, for the most part, that they are being built is simply because of government edicts having to do with zero emissions mandates and also the corporate average fuel economy mandates, which are threatening to go up to more than 50 miles per gallon. And one way that car companies hope to cope with that is to introduce these electric cars into their lineup. And of course, the electric car uses no gas, so if you have one electric car, let's say, that uses no gas, it gets infinity miles per gallon, and you have an SUV that gets, let's say, 20 miles per gallon, well, effectively you're increasing your CAFE number by 50%. So that's one of the big reasons for the production of these vehicles. But there is no market for them. They're loss-leaders. There's a term out there that I like. I can't take credit for it, but it's "compliance car." That's what electric cars are.

WOODS: Yeah.

PETERS: They're manufactured to comply with government edicts, not because there is any significant real market demand for them.

WOODS: Well, now, speaking of which, let's talk about what's going on with Mazda. This is indeed very depressing, as you say, in your piece about it.

PETERS: Yeah, very much so. So Mazda is kind of like what BMW used to be. It's a car company that really caters toward people who are enthusiastic about driving, who don't see cars as just appliances that get you from A to B, but are passionate and emotional about their cars, enjoy driving them. And until quite recently, Mazda very publicly said, look, we're going to focus on internal combustion engine cars, making them more efficient, but keeping them fun, and we're not going to buy into this electric car thing. Well, they just announced a couple of weeks ago a 180-degree turn on that. And they, like everybody else, have embraced the electric car thing, and again, it's because they have to. They try to put the lipstick on the pig and talk about all the virtues, but the reality is they don't have a lot of choice, because it

is the only way going forward that Mazda and all these other car companies are going to comply with all the stuff that's coming out of Washington.

WOODS: So does this mean that these would all be purely electric cars, or are we talking about hybrids, or what?

PETERS: we're talking about both. They're going to have pure electric cars, and then they're going to have hybrid cars, the majority of which will be plug-in electric cars. And I refer to those as part-time electric cars, because they different from a conventional hybrid in that you can actually drive on just the battery. Most hybrids, the hybrid part of the drive train is only operative when you're really not moving or not moving very fast. But these plug-ins can operate as an electric car, although for a limited range. They generally go between 20 and some of them 50 miles or so before the gas engine comes back on.

WOODS: You know, there are a lot of depressing stories on your site, and I'm afraid we're going to have to get to a couple more of them. And of course, we can also talk about new cars, which is always — well, it's sometimes fun. I guess sometimes not fun when you get in a new car, and you realize, eh, half the fun of driving a car has been sucked out of more federal regulation. So that's another matter. But as you look on the horizon, is there anything that is a positive development, as far as you can see?

PETERS: Well, you know, the engineers are really doing almost miraculous work in terms of continuing to produce vehicles at all, given this confluence of regulatory mandates. On the one hand, you've got zero emissions requirements, and on the other hand, you've got these CAFE requirements, and then you've got this other thing, which is really oily and has happened over about the last two years, where the fuel economy standards are being conflated with emission standards. I don't know whether you've noticed this, but they began to speak of things like carbon dioxide, which has never before been considered a tailpipe exhaust emission as an emission, and I think that that's very, very slippery, very dishonest.

In the past, in terms of regulatory law, emissions were considered to be things like unburned hydrocarbons, particulates, and so on, the things that did contribute to smog, that caused health problems in people, and so on. But now they're talking about carbon dioxide, and they're categorizing that as a pollutant subject to regulation in the same way that traditional emissions have been regulated. And that's going to be the means by which they extinguished these cars and force us all into these tiny little and very expensive electric cars and plug-in hybrid cars. And the engineers are coping with it, but there is a limit to what engineering can do. And the people in Washington don't seem to comprehend that.

Now, to get back to your original question — sorry for the long segue — but one thing that is spectacular about the time that we live in is that the horsepower being produced by the average engine, and the performance that's delivered, and the economy that's delivered is nothing short of stupendous. You've got family cars — for example, Toyota Camrys — humdrum family sedans, that make 300 horsepower, that get to 60 in 5 and a half, less than six seconds, and still get 30+ miles per gallon on the highway. And that is just absolutely amazing. If you reference that to the exotic cars of the '80s, the performance of family cars today is as good or better than Ferraris and Porsches of the '80s.

WOODS: Wow, well, that is encouraging to hear. So I mean, just the fact that we have people who are so clever, that almost no matter what's thrown at them, they can somehow figure out

a way still to crank out something approximating what people might still want. This is heroic. What surprises me is that we don't hear more howls of outrage from these people. *Like, man, what do you think I am? Some kind of an insane workhorse? Why are you doing this to me?* Why don't we hear that?

PETERS: Well, actually, we do hear it. Or rather, I should say I hear it. And other journalists hear it from the engineers and from the middle-level people who are not allowed to go officially on the record and talk about it. The people who do talk about it officially for the companies, they for politically correct reasons talk up and tout electrification. They genuflect before the god of climate change and talk about how they're going to address it and various other things too that have absolutely nothing to do with cars or engineering, such as diversity, which of course, makes my teeth ache, as you know.

WOODS: So let's say a little something, though, about what's going on with motorcycles now, because you have a piece where you say, up to now motorcycles have kind of managed to evade a lot of the hysteria about safety and regulation. But it looks like that may not be the case for much longer.

PETERS: Right, unfortunately. Motorcycles sort of were able to fly under the radar and not be subject to that much in the way of government regulations. As recently as the early 2000s, most bikes didn't have any significant emissions controls. Most of them still had carburetors. Now, the government is turning its attention to bikes. And most of them do have a lot of these elaborate emissions controls, which is one reason why they're becoming more expensive. But the really alarming thing to me is that they're starting to talk about imposing these "safety" mandates — I always say it that way to kind of ridicule it — on motorcycles, including car-like technologies, such as mandatory anti-lock brakes, traction and stability control, and believe it or not, even airbags. One bike already has an airbag available optionally, and that's the Honda Gold Wing.

WOODS: I'd like to know, if I may — again, I want to switch gears here, because I actually know nothing about motorcycles. That was just because I just felt like, for the sake of completeness, people need to know that the bad guys are coming for the motorcycles. But what interests me also is your piece called "Big Truck, Little Engine," and you're talking about this madness of putting a four-cylinder engine in a full-size truck. Now, I can tell when I'm driving — because I rent a lot of cars, because I travel a lot. So I rent a lot of cars, and I can always — when I rent a car, I confess, Eric, I don't indulge my love for driving. I indulge my cheapskate nature.

PETERS: Yeah, well, me too, sure. It's an appliance at that point, yeah

WOODS: That is when it's an appliance, right. It's not part of my lifestyle. I genuinely just want to get from A to B. And so I can tell when I'm trying to merge on the highway and I can't get any pickup, I realize, oh, yeah, it's a rental car, right. But I can't imagine driving like that with a with a big truck. But first of all, for dummies like me who use these terms, but we secretly have absolutely no idea what they really mean, what is a four-cylinder or X-cylinder engine — what does that actually mean? What are the cylinders and what are they — I'm sorry for being so dumb.

PETERS: Oh, no, it's not dumb; it's just the basic terminology. A given internal combustion engine will have a number of cylinders. It can be one cylinder. They make one-cylinder

engines. Not in cars, but they are made. And all the way up to, for example, a 12-cylinder engine. You find those in exotic, high-performance cars. So each cylinder contains a piston. The piston goes up and down. The up-and-down movement is translated into forward motion through the drive train of the car. It's pretty simple. And generally, the more cylinders you have, the larger the displacement of the engine, so the more air and fuel is being processed, and the more power is being created. So generally speaking, the larger the engine, the more power that you're getting out of that engine.

WOODS: All right, so there you go. I mean, obviously, I got the gist of it, but I don't really know what I'm talking about here. But I know what driving feels like with different types of engines. And now, I don't think I think I've — I think I've only driven a full-size truck maybe once or twice. I just don't ever have any need to. But I'm reading in your piece that Chevy is planning to put a four-cylinder in the 2019 Silverado.

PETERS: Yep.

WOODS: And then we're seeing also that Ford is going to go down the same road with the F-150 in 2019. And then you point out that the — after all this, you think, well, at least maybe the one silver lining, at least if we get something out of this, is that there's better gas mileage. But the gas mileage improvement is trivial to nonexistent.

PETERS: That's right. That's right. Well, it's trivial from the standpoint of the owner. If you or I bought the vehicle, you're looking at about a three-mile-per-gallon difference with this new four-cylinder engine versus the V8 that you can still get in the vehicle. And so you scratch your head and say: why would Chevy go to all this trouble, because a turbocharged engine is much more complicated than an engine without a turbocharger, to get a three-mile-per-gallon-difference? What's the point of that?

Well, the point, it gets back to that issue we talked about a moment ago about the compliance car. Corporate average fuel economy is figured on a corporate basis, meaning all of the models that a given manufacturer makes, they add all that up, and there's a big formula that they use, to calculate what the CAFE number is. And if the overall CAFE number falls below whatever the statutory mandatory minimum is, then these fines, these gas guzzler fines are added to the price of the vehicle, and that makes the vehicle less competitive in the market. So this three miles per gallon, it's not a lot for you or I., but if you're talking about a very popular vehicle like that 1500 Chevy, a full-size truck, they sell a lot of those trucks. And if you talk about, let's say, 100,000 vehicles in a year and factor that three-mile-per-gallon increase, then it does matter and then it makes sense. So that's the only reason for all this stuff.

WOODS: Meanwhile, apparently, the ethanol people just won't stop. You'd think maybe we had reached some kind of equilibrium with that, but now you're saying that, up to now, there's been a limit to how much your gas could be adulterated with this stuff, but now that percentage is going to increase from 10 to 15. And this is coming directly from Trump himself, who in other areas —

PETERS: Unfortunately, yeah.

WOODS: — people have looked to as somebody who might give some regulatory relief, at least to automobiles.

PETERS: Well, when it comes to ethanol, this is one of the biggest crony con things going on. There's something called the Renewable Fuel Standard, and it was a law that was passed at the behest of the ethanol lobby, which forces refiners and everybody involved in selling motor fuels to incorporate a certain percentage of so-called renewable fuels into their mix. When it comes to gasoline, their renewable is ethanol, which is made out of corn, corn alcohol. That brings us to the farm states, and it brings us to one state in particular: Iowa. And this is why Trump — and not just Trump, but every politician — has to genuflect, bend knee, to appease the people in that state, because of its political importance.

So now — and it's ironic, and I'll tell you why in a minute — they're talking about pushing 15% ethanol into the fuel supply. Generally, it's 10% now. And the irony of that is that we're now on track to be energy independent in terms of oil production in this country. And in fact, if current production continues, my understanding is that within five years from now, the United States will be a net exporter of oil. There's absolutely no reason to produce this ethanol, which is more expensive to produce in the first place. And in the second place, it's less efficient. Ethanol contains about two-thirds less energy per gallon than gasoline does. So when you burn it in your car's engine, guess what: you don't go with far on a gallon of ethanol-adulterated fuel as you would with a gallon of regular gasoline.

WOODS: And of course, it has a terrible reputation among drivers. You never hear any driver who's enthusiastic about it. The next one you hear will be the first.

PETERS: Well, you wouldn't, because your car will get noticeably worse mileage in the first place. And in the second place, if you own a car that was made before roughly the early 2000s, that isn't what they call flex fuel capable, that means it was not designed to handle high concentrations of alcohol in the fuel. And if you read your owner's materials and your warranty documents, it will warn you: do not use any fuel that has more than 10% ethanol in it, or you risk significant damage to the engine and your warranty will be void.

WOODS: Yeah, so that's not exactly a selling point. So having said all this, I now want to ask you, given that we are at more or less the end of the year, mid-October now, and I know you get the opportunity to test drive new cars and even just to research and learn about new cars, and I always ask you what is catching your eye. And your eye could be caught for different reasons, a good bargain or a really powerful car or a smooth ride or whatever. Give me a couple of categories and tell me what you think we ought to look out for in 2019.

PETERS: Well, I think we're going to see more widespread adoption of turbochargers, which used to be highly specialized. It's a power adder. A turbocharger pressurizes as an engine. It forces more air and then fuel into the engine to make more power. And historically, turbos have been used to enhance the power of an already powerful engine, usually in a high-performance car or a sporty car or a luxury sports car. But turbos are being now used in engines in all sorts of cars in order to get more power out of these smaller engines. So that's good, on the one hand. You know, you will have the same power or comparable power to what you experienced or were used to in the past.

But you do have the additional complexity of that turbocharger and very possibly not as great longevity and durability down the road. We won't know for a number of years until these

vehicles have been in circulation for a long time in real-world conditions, how they survive as daily drivers, out there every single day, putting around in traffic and all of that. So it's a real gamble. Nobody exactly knows what's going to happen. That's one thing.

You're also seeing some really interesting technological solutions to some of these problems. I recently test drove a new Volvo XC60, and in addition to a turbocharger, it also offers a supercharger, if you can imagine that. So you have an engine with both a turbo and a supercharger to complement each other, to build power and be efficient at the same time.

But again, this stuff is really elaborate and really expensive, and I wonder down the road what this is all going to mean. Cars continue to get more and more expensive. I think the figure is $35,000 was the average price paid for a new car last year. And that's the main reason why new car loans are now pushing seven and even eight years. And there is a limit to that, because cars are fundamentally appliances. They depreciate, and after a period of time, their value begins to really plummet, and it's dangerous to get into the position where you owe more on this car than it's worth. And that's happening to more and more people, and I think that trend is going to get worse in the coming years.

WOODS: So can you give us actual examples of cars that you like?

PETERS: Oh, there are a lot of cars that I like. I really like what they've done with — Kia has got a car called the Stinger, which is a new luxury sports sedan that's just come out.

WOODS: Oh, yeah, I haven't heard of that or seen it.

PETERS: Well, it's first of all — and this is just me, you know, a *Mad Max Road Warrior* fan. I love rear-wheel drive cars, and I love powerful sports sedans.

WOODS: Wait a minute. Can you back up? Why — I don't get that. What is — again, going to show how little I know about cars. What would there be to prefer about a rear-wheel drive car?

PETERS: Well, rear-wheel drive cars are better balanced than front-wheel drive cars. In a front-wheel drive car, you have the engine and the transmission all on top of the front wheel, so they're very nose-heavy. That's good for traction. It's good for a family car. It's helpful in the rain; it's helpful in the snow. But if you're a performance enthusiast and you like a car that handles exceptionally well, particularly at very high speeds, a rear-wheel drive car will be better balanced. Also, in a front-wheel drive car, the front wheels have to do two things: they have to power the car and they have to steer the car. In a rear-wheel drive car, the front wheel steer the car only, and the rear wheels are the wheels that put the power to the pavement. And that's, again, preferable for performance driving, and that's why most serious sports cars and almost all race cars are rear-wheel drive.

WOODS: Ah, as opposed to — but what about all-wheel drive? Is that still not quite right?

PETERS: No, all-wheel drive is an enhancement in both cases. There are race cars and performance cars that are all-wheel drive for just that reason. But again, the main difference is that the preponderance of the power is directed toward the rear wheels, and the advantage is, when you have the all-wheel drive system, that if they begin to slip and break

traction, the system then routes some of the power back to the front wheel, so traction is restored, so the car will accelerate more quickly. I'll give you a very specific example of that, and this gets back to fun cars. Earlier in the summer, I had a chance to drive both the Hellcat Challenger and the Trackhawk Jeep Grand Cherokee. Are you familiar with those vehicles?

WOODS: I've heard of them.

PETERS: Okay, they have the most powerful V8 that has ever been put into any kind of production car. 707 horsepower, if you can imagine, supercharged V8, and they get to 60 in 2.9 seconds, 200 miles an hour on the top, and a 12-second quarter mile, which to translate into your regular-guy, non-car-guy speak, is extremely quick and very fast. Now, what's interesting is that the Challenger is a rear-wheel drive car, and the Jeep Trackhawk, which is a Jeep Grand Cherokee, has that same engine made into an all-wheel drive system. Now, the Challenger is extremely fast if the pavement is dry, but if it's wet, you're all over the road, and the car is borderline iffy and scary because of the fact that it's got so much power and that power is trying to get to the pavement through those two rear wheels. The Trackhawk, on the other hand, is all-wheel drive. You can go just as quickly in that thing on a wet road as the Challenger Hellcat goes on a dry road, so you've got pretty much all-year-round, all-weather high performance in this nice, big SUV, this all-wheel drive SUV, just as good as in this two-door muscle car, even though the Jeep weighs literally almost 1,000 pounds more on top of everything else.

WOODS: So let me just ask before we wrap up: I want to know what would you recommend to the bargain hunter? Is there a good bargain out there?

PETERS: Well, actually, there's a lot of good bargains, and I've got one in mind and one in particular that I think your listeners might be very interested in. After two years of being holed up on lots out in the middle of nowhere, Volkswagen is selling the held-back inventory of TDI diesel-powered Jetta, Passats, and various other models. These are brand-new cars that have just been held on lots as this emissions cheating scandal has sorted itself out. These are fantastic cars. I plug Volkswagens all the time and, in particular, the diesel-powered versions of them. These are cars that get nearly hybrid gas mileage without all the hybrid stuff that goes with it. Tremendous range, you can go almost 700 miles on a tank, if you can imagine that. And the torque from the diesel just coming off the line and when you're just out driving around is fantastic. I can't say enough good things about those cars.

WOODS: Wow, okay. Great. It makes me happy, Eric, to hear you happy about something in the automobile industry. It's just heartbreaking not only for a normal person to see what's going on, but to know that a car enthusiast like you feels this with a particularly intense pain. So I'm glad to hear some joy.

PETERS: Yeah, I just wish that Volkswagen hadn't been so roasted over the coals by the government about this cheating stuff, to the extent that it's not offering these vehicles anymore new. You can't buy current 2018 or 2019 Volkswagens with the diesel engine. And that's a shame, because they really were brilliant. And as far as the cheating goes, if you look into this, you'll find that it's equivalent to, you know, you see a radar trap up ahead, and you've got your radar detector on so that you avoid the speed cop with his radar gun. These cars, they admitted fractionally more of a prohibited compound called oxides of nitrogen. Literally fractional. The differences are infinitesimal. And really, Volkswagen's true crime was

having affronted the authority of the government, and that's why the government has been so vindictive and vicious toward Volkswagen over this. Not because those cars were polluting.

WOODS: Well, there's a surprise. All right, well, listen, folks, you've got to check out EPAutos.com, EricPetersAutos.com. The quick version is EPAutos.com. There's nobody out there doing what Eric is doing as a libertarian car guy. And I will tell you that, as I've told you before, I make a monthly contribution to Eric. At the time I made it, it was the highest monthly contribution he allowed, but it's way too low. He has to allow higher monthly contributions. I was prepared to give him more but, I didn't have the option to. So hint, hint, Eric. Some of us would actually like to —

PETERS: I think that's been fixed [laughing].

WOODS: Has it? Okay.

PETERS: Yeah, I think so. Yeah, and if people want to, we have two options. You can go through PayPal, of course. And the other alternative is just you can send it in the mail: money orders, checks, whatever. I've got the address on the site. All they have to do is click on the Donate button, and it'll give them all the instructions.

WOODS: Well, this is a case where we have to remember that, as libertarians, we say: well, in a free society, these things that we like would be voluntarily funded. Okay, well, let's start inching our way towards that right now. What Eric is doing is extremely valuable and important, so do as I do and support him over at EPAutos.com. Thanks Eric, as always. We'll get you back when we've got some more news to discuss. Thanks again.

PETERS: Thanks, Tom. Appreciate it.