THE WALL STREET JOURNAL.

Elon Musk's Subsidy Aggregation

The billionaire tries to integrate his taxpayer-backed business model.

Elon Musk didn't become a billionaire without brass, and this week he floated one of his most outrageous bets: an offer by his taxpayer-subsidized Tesla Motors to buy his taxpayer-subsidized SolarCity. Tesla shareholders and Wall Street analysts are howling, but didn't they always know they were buying a business model that depended on the kindness of politicians?

The electric-car maker offered to acquire the solar panel company at a more than 20% premium over SolarCity's previous share price in an all-stock transaction. "Tesla customers can drive clean cars and they can use our battery packs to help consume energy more efficiently," the company said in a blog post, "but they still need access to the most sustainable energy source that's available: the sun."

The ostensible plan is to set up a one-stop shop so folks buying $85,000 Teslas don't have to walk across the street to buy solar panels, among other "synergies." Mr. Musk predicted, with his typically modest ambition, that the merger will lead to a Tesla valuation of $1 trillion, or about 34 times what it was Wednesday.

He may need one of his SpaceX rockets to get there. Tesla shares fell 10% Wednesday, or more than the $2.8 billion value of SolarCity, as investors asked why one money-losing company would be better off buying another money-losing company. SolarCity was once a darling of the green energy set, but its shares have fallen more than 50% in the past year as its political advantage ebbs.

The company's solar-panel leasing business grew rapidly thanks to federal tax credits and state "net metering" programs that underwrite installation and let companies hawk renewable power back to the grid at high prices. New York's Governor Andrew Cuomo wrote a taxpayer check for $750 million for a SolarCity plant in 2014.

But net metering has been exposed as a crony-capitalist scheme that forces nonsolar customers to subsidize their solar-using and often wealthier neighbors. Nevada recently capped its solar-metering handout. Hawaii has also changed its repayment structure, and others of the 40 or so states with programs may follow.

SolarCity is bleeding cash, and the suspicion is that Mr. Musk is engineering what amounts to a bailout by Tesla. The problem is that Tesla is also spending its available cash to develop its Model 3, which is billed as an electric car even the masses can afford. Tesla has an unusually high debt-to-equity ratio, and it isn't obvious how adding another cash-needy company will increase value. Caveat shareholder.

Tesla's cars have a devoted following, and its stock has had a brilliant run. But it isn't clear how competitive it would be without taxpayer support: The car maker rakes in money—$168 million in 2015, up from $3 million in 2011—thanks to the racket known as state zero-emission vehicle credits. Tesla only produces electric cars, so it can sell its extra state-supplied credits to auto makers that don't reach government fuel-efficiency standards.
Tesla's $5 billion Nevada battery plant received more than $1 billion in breaks on property and sales taxes, along with discounts on electricity, and even a 30% federal credit for solar generation. Don't forget President Obama's $7,500 federal tax credit for every electric-car buyer. That's right, Uncle Sam pays the likes of Leonardo DiCaprio so they can flaunt their green virtue on the highway.

If Mr. Musk can make a market success of electric cars and lithium-ion batteries, he'll have served customers and earned his billions. But so far Tesla looks more like a classic of the reverse income redistribution of green crony capitalism, in which middle-class taxpayers subsidize billionaires who make products to satisfy the anti-fossil-fuel indulgences of the upper classes. That Mr. Musk is reshuffling his Tesla balance sheet to subsidize his own solar venture is a sign that this may not be a sustainable business model.