MICHAEL Z FREEMAN JULY 2023

Creation of Wealth

What a Startup really does

In the Beginning …

This presentation is based on the article *How to Make Wealth* by Paul Graham. Paul is an English venture capitalist. His first startup was *Viaweb* (later renamed *Yahoo! Store*). He cofounded *Y Combinator* the startup accelerator behind *Airbnb*, *Coinbase*, *Cruise*, *DoorDash*, *Dropbox*, *Instacart*, *Quora*, *PagerDuty*, *Reddit*, *Stripe* and *Twitch*.

Money is not wealth

- Wealth is not the same thing as money.
- Until recently even governments sometimes didn't grasp the distinction between money and wealth. Adam Smith (Wealth of Nations, v:i) mentions several that tried to preserve their "wealth" by forbidding the export of gold or silver. But having more of the medium of exchange would not make a country richer.
- Wealth is stuff we want: food, clothes, houses, cars, gadgets, travel to interesting places, and so on. You can have wealth without having money.
- If you were in the middle of Antarctica, where there is nothing to buy, it wouldn't matter how much money you had.
- Unless you plan to get rich by counterfeiting, talking about *making money* can make it harder to understand how to make money.
- People think that what a business does is make money. But money is just the intermediate stage-- just a shorthand-- for whatever people want. What most businesses really do is make wealth. They do something people want.

“People get confused sometimes they think an economy is money. Money is a database for exchange of goods & services. Money doesn't have power in & of itself. The actual economy is goods & services."

– Elon Musk

"*For me it was never about money, but solving problems for the future of humanity*"

– Elon Musk

(What was that again about businesses doing something people want ?)

The Pie Fallacy

- I can remember believing, as a child, that if a few rich people had all the money, it left less for everyone else. Many people seem to continue to believe something like this well into adulthood. This fallacy is usually there in the background when you hear someone talking about how x percent of the population have y percent of the wealth. If you plan to start a startup, then whether you realise it or not, you're planning to disprove the Pie Fallacy.
- What leads people astray here is the abstraction of money. Money is not wealth. It's just something we use to move wealth around. So although there may be, in certain specific moments (like your family, this month) a fixed amount of money available to trade with other people for things you want, there is not a fixed amount of wealth in the world. You can make more wealth. Wealth has been getting created and destroyed (but on balance, created) for all of human history.
- Suppose you own a beat-up old car. Instead of sitting on your butt next summer, you could spend the time restoring your car to pristine condition. In doing so you create wealth.
- Kids know, without knowing they know, that they can create wealth. If you need to give someone a present and don't have any money, you make one.

"Some have this absurd view that the economy is like some magic horn of plenty… Now let me just break it to the fools out there: If you don't make stuff, there's no stuff. We've become detached from reality. You can't just legislate money and solve these things. If you don't make stuff, there is no stuff."

– Elon Musk

Craftsmen

- A programmer can sit down in front of a computer and create wealth. A good piece of software is, in itself, a valuable thing.
- When those far removed from the creation of wealth-- undergraduates, reporters, politicians-- hear that the richest 5% of the people have half the total wealth, they tend to think *injustice!* An experienced programmer would be more likely to think is that all? The top 5% of programmers probably write 99% of the good software.

(Steve) Jobs

- Someone graduating from college thinks, and is told, that he needs to get a job, as if the important thing were becoming a member of an institution. A more direct way to put it would be: you need to start doing something people want. You don't need to join a company to do that. All a company is is a group of people working together to do something people want.
- Someone who really devoted himself to work could generate ten or even a hundred times as much wealth as an average employee. A programmer, for example, instead of chugging along maintaining and updating an existing piece of software, could write a whole new piece of software, and with it create a new source of revenue. Companies are not set up to reward people who want to do this. You can't go to your boss and say, I'd like to start working ten times as hard, so will you please pay me ten times as much?
- You are getting together with a group of other people who also want to work a lot harder, and get paid a lot more, than they would in a big company. And because startups tend to get founded by self-selecting groups of ambitious people who already know one another (at least by reputation), the level of measurement is more precise than you get from smallness alone. A startup is not merely ten people, but ten people like you.
- Steve Jobs once said that the success or failure of a startup depends on the first ten employees. I agree. If anything, it's more like the first five.

Technology

- If you look at history, it seems that most people who got rich by creating wealth did it by developing new technology. You just can't fry eggs or cut hair fast enough. What made the Florentines rich in 1200 was the discovery of new techniques for making the high-tech product of the time, fine woven cloth. What made the Dutch rich in 1600 was the discovery of shipbuilding and navigation techniques that enabled them to dominate the seas of the Far East.
- Venture capitalists know about this and have a phrase for it: barriers to entry. If you go to a VC with a new idea and ask him to invest in it, one of the first things he'll ask is, how hard would this be for someone else to develop?
- If you can develop technology that's simply too hard for competitors to duplicate, you don't need to rely on other defences. Start by picking a hard problem, and then at every decision point, take the harder choice.

Users

- The ball you need to keep your eye on here is the underlying principle that wealth is what people want. If you plan to get rich by creating wealth, you have to know what people want. So few businesses really pay attention to making customers happy.
- How often do you walk into a store, or call a company on the phone, with a feeling of dread in the back of your mind? When you hear "your call is important to us, please stay on the line," do you think, oh good, now everything will be all right?

"*GM recalled all of the EV1's* [in 2003] *even from customers that really wanted to keep the cars, they recalled the cars and they crushed them in a junkyard and it still blows my mind that they did this because the people who had the EV1's, they love the cars so much they held a candlelit vigil at the junkyard where the cars were crushed. Okay, like it was like someone was getting killed, and it's like if somebody is holding a candlelit vigil for them because they love your product so much maybe you should make more of it ?*"

– Elon Musk (In light of Tesla's subsequent product design and customer support)

Incentive

- Remember what a startup is, economically: a way of saying, I want to work faster. Instead of accumulating money slowly by being paid a regular wage for fifty years, I want to get it over with as soon as possible.

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