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Peter Thiel & Josh Wolfe: Harnessing and Securing American Innovation: How Venture Capital Impacts Defense

David Senra

5-6 minutes

Peter: By my count, there are only two companies that have been started since The Cold War, that are (1) focused on national security, and (2) have reached a billion-dollar valuation: SpaceX and Palantir. [4:00]

Peter: **A lot of innovation gets driven by smaller companies. This is absolutely critical. When not many people are doing it— if you are one of the few who do it— there is a lot of opportunity.** [4:25]

Josh: **Strength comes in part from technological dominance.** Technological dominance comes from brilliant engineers that are inventing cutting edge technologies. [6:20]

Josh: Palmer Luckey, Trae Stephens, and Brian Schimpf [founders of [Anduril Industries](#)] are authentic engineers that are obsessed with technology.

They are constantly thinking about:

What does the warfighter need?

Where is the white space?

Where is the gap?

What is China developing?

What is Russia developing?

How can we put them [US warfighters] with the most cutting edge technologies out there? [6:35]

[[You can read my past notes on Palmer Luckey here.](#)]

Josh: Many of these people [those inventing new technology] were inspired by Science Fiction. They are literally going back— 20 years into the annals of comic books and sci-fi movies— and saying it would be amazing if we had that. [7:00]

Peter: If you can't create a business that is worth a billion or more the venture capital model does not work that well. If you start a company that is worth \$30 or \$100 million that can be quite successful for the person who started that company. For a venture fund if that is the best we did we would be out of business. [9:40]

Have Palantir and SpaceX created a template for other startups to follow with the defense space?

[Peter]: Well there is certainly proof that it can be done. In both cases, it took a wickedly long time. Close to a decade to start getting significant contracts from the US Military. In some ways, they were not conventionally venture fundable. [10:20]

Josh: It helps to reduce market risk. You will have a lot of venture capitalists that say you are focused on the defense industry. **The stereotypes of the defense industry are that the defense industry is slow-moving, bureaucratic, very political, they might not pick the best technology, they might instead give the contract the company they have been working with for the past 20 years, etc... So whatever you can do to eliminate that risk [is good].** [If not] It is like we are fighting with ourselves by not equipping the warfighters with the absolute best technology that is coming from some of these early companies. [14:30]

Josh: The origins of Silicon Valley were in electronic warfare and defense. There is an aversion for people to want to work on defense-related things. That is a zeitgeist that is growing. [21:30]

Josh: I think there is a job society can do —and that is the retelling of a narrative that can galvanize some of the best and brightest to work on American defense. [23:10]

Peter: **There is always this danger for a tech company to become overly bureaucratized.** [29:49]

Josh: **The one real edge you can have as an investor is a behavioral advantage. For us [at Lux Capital] that means having a longer time horizon than the average investor. We call this time arbitrage.** If the average investor is looking for a signal of success in a year or two— and we are looking at something that might not give us a signal for 4 or 5 years —then by definition there will be fewer investors looking to fund what we are funding.

The valuations will be lower— and if we are right —the returns for us and our investors will be higher. So we like to look at things that are further out which means they are riskier and more improbable to work. But when they do they work in a really big way. [30:46]

Peter: When I started PayPal years ago I was always asked, “Why can’t a big bank do this?” I never had a good answer because in theory, the banks had the scale, more capital, longer time horizons. **I think the answer is the internal politics are unbelievably bad. This is true not only in government but also true of large corporations. They become incredibly politicized in ways that are not good for innovation.** [39:45]

Full video here: [Harnessing and Securing American Innovation: How Venture Capital Impacts Defense Founders #101 Warren Buffett \(The Tao of Warren Buffett\) is available now. Listen here.](#)

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