



The Free Markets of Charles Koch

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Charles Koch, CEO of Koch Industries, has frequently admonished business leaders to reject government subsidies and incentives. This advice reflects his fervent belief in free-market capitalism as defined by Friedrich Hayek. Hayek's theory, today known as neo-classical liberalism or neoliberalism, calls for freeing markets by reducing the size of government and government spending, reducing taxes, deregulating industry, privatizing most government functions, and supporting free trade. Hayek contends that only under free and fair conditions can the market of informed buyers and sellers distribute resources effectively. Following these precepts, Koch admonishes industrialists to stop seeking subsidies because they distort the free market and lead to waste and misallocation of resources.

Koch says he's against all corporate subsidies like price supports, tax credits, cash grants, interest-free loans, tax breaks, insurance protection, low-interest loans, and corporate bailouts. Ironically, while condemning subsidies in favor of a truly free market, he and his company continue to take advantage of them on a large scale.

Good Jobs First, a non-profit that tracks corporate subsidies, has reported that Koch Industries received \$195 million in state and local tax subsidies, low cost loans and grants from 1990 through 2014. Additionally Koch Industries has received cheap access to timber on federal lands for its subsidiary Georgia Pacific and the use of eminent domain laws to acquire land for its pipelines.

According to a report from the Cato Institute (a Koch-controlled think tank) removing all financial subsidies for corporations would mean cutting up to \$100 billion a year in subsidies for corporations from the federal government alone, not including state subsidies. Whenever Congress suggests cutting even small corporate subsidies a large contingent of lobbyists descend on them to squelch the idea. Removing the whole lot of corporate subsidies would likely start a firestorm of criticism, recriminations and threats from corporate lobbyists.

In addition to financial subsidies, Charles Koch and many other corporate CEOs cultivate other advantages like specific laws to benefit their businesses and industries. Koch Industries is a member of the American Legislative Exchange Council and he has provided substantial monetary grants to the organization. ALEC works with state legislatures to draft model bills that business friendly legislators take home to introduce for passage. One example of model

legislation from ALEC is the Eminent Domain Authority for Federal Lands Act which arrogates to the state the use of eminent domain authority to take possession of federal lands within the state. Since 2010 Koch-supported Republican legislative and gubernatorial candidates have won complete control of 31 of 50 state governments. Koch-backed state governments are pervasive in many states with large tracks of federal lands. Passage of this law in any of these states will most likely lead to easier and cheaper exploitation of public lands by Koch Industries and other corporations.

This proposed legislation from ALEC is only one of many bills designed to provide advantages and more power for large corporations. Furthermore ALEC legislation is only one leg of Koch's strategy to extend corporate advantages in the marketplace. Other legs are as follows: provide millions of dollars to think tanks like the CATO Institute and university programs like the Mercatus Center and Institute for Human Studies at George Mason University to legitimize, teach and promote free market economic policies intended to reduce costs, controls, and accountability for business; spend \$889 million to elect a Republican president in 2016 who is willing to fight for more tax and legal advantages for corporations; continue to provide substantial financial assistance to elect free-market conservatives in state and national legislative races; pour millions of dollars into lobbying for laws that maintain advantages for Koch Industries and other corporations; support efforts to restrict voting rights; and finance efforts to deny global warming and actions to slow it down.

Koch's actions to gain more and more advantages in the marketplace while asking other industrialists to give up subsidies are hypocritical and demonstrate that seeking profit trumps even the most hallowed public goals and values that he promotes. If eliminating corporate subsidies in order to make markets more free were his top priority, then to show himself a genuine role model for his cause he would avoid this hypocrisy.

More importantly, the theory of free market capitalism that is Charles Koch's ultimate goal has never led to free and fair markets. A form of it, laissez-faire capitalism, was practiced in America in the Gilded Age of the late nineteenth century. This historic period became famous for corporate monopolies, market manipulation and control by large corporations, exploitation of the working class, massive accumulation of wealth and power for industrialists, and catastrophic market crashes. In another example, the Clinton and Bush administrations and the Fed opted for free market policies to manage complex financial instruments, derivatives trading, and large leverage increases in Wall Street banks in the 1990s and 2000s. Left free, investment bankers took on excessive risks and employed unethical practices in order to increase their profits. And when the markets crashed in 2008 the government had to bail them out with billions of dollars of taxpayer money.

Neither Koch nor his think tanks have led any significant efforts to moderate greed, dishonesty, and selfishness in the corporate community. These vices drove the robber barons of the Gilded Age to use laissez-faire capitalism as a license to unfairly control and exploit markets in order to line their own pockets. So, under Koch's free market vision, are we to believe that the tycoons of modern day industry will suddenly turn over a new leaf and refrain from the anti-competitive and unfair tactics of their predecessors? Based on historic behavior of big business leaders we can say no with high confidence. And the pursuit of their own self-interest won't bring the best for society in the long run, which is also an adamant claim of classical and neo-classical liberalism. That was demonstrated graphically during the financial crisis, when the pursuit of self-interest by

Wall Street bankers to make massive profits in subprime home loans led to a catastrophic economic downturn, large increases in unemployment, the destruction of billions of dollars of retirement investments, and gigantic bailouts for Wall Street banks and AIG.

In conclusion, we shouldn't take Koch's admonitions for corporations to reject government subsidies seriously. Among business leaders, Charles Koch is the most fervent proponent of free market capitalism, including the elimination of corporate subsidies. Yet his example of actively pursuing subsidies and government-provided advantages for his company decimates the chances that his less ideological capitalist friends will be inclined to give up any subsidies when doing so would promise to reduce their profits. On the other hand, Koch's efforts to gain control of the American political system in order to implement free market capitalism are very serious, well organized and well financed. If they succeed, based on previous examples of free markets, we can expect corporate welfare to continue, constraints on corporate excesses to diminish and inequities in the market (not more freedom) to surpass even those of today.