

The American Conservative

Koch Brothers: The Real Thing

By Justin Raimondo

July 9, 2014

According to Senate Majority Leader Harry Reid, the Koch brothers are responsible for global warming and much else that's wrong with the world. This is part of a strategy to demonize Charles and David Koch—the principals behind the country's largest privately-held company—and make them the issue come Election Day. There's a big problem with this strategy, however: a recent poll shows that most of Reid's own constituents haven't the slightest idea who the Brothers Koch are.

Daniel Schulman's much anticipated book, the first biography of the Koch family, may help voters bridge the knowledge gap—but Democrats are going to be disappointed if they think it will help their smear campaign. Indeed, it is likely to do the opposite. It's hard to write a biography of someone you hate, and Schulman, a writer for *Mother Jones*, clearly came to admire his subjects.

The story starts with Fred Koch, a son of Dutch immigrants who settled in the “poor but plucky” town of Quanah, east of the Texas panhandle. Ambitious, single-minded, and tough as nails, Fred made his fortune helping Joe Stalin extract oil from the Russian steppes—learning in the process that the rosy picture of a “workers' paradise” drawn by the likes of Walter Duranty was the exact opposite of the truth.

Driven to seek overseas markets by an onslaught of patent-infringement lawsuits from a Rockefeller-connected oil consortium, Fred Koch arrived in Russia in 1930 and “found it a land of hunger, misery, and terror,” as he would later recall. When he left that autumn, his Soviet minder—who had spent the whole time capitalist-baiting him—bid adieu with this warning: “I'll see you in the United States sooner than you think.” What Fred had seen in Stalin's Russia set him on a course that landed him in the ranks of the John Birch Society.

Robert Welch, the society's founder, recruited him early on: Fred was at the 1958 meeting where Welch first laid out his plan to fight the Communist menace and roll back the New Deal. The John Birch Society was a hybrid of Old Right libertarian economics and the McCarthyite paranoia of the 1950s, and Fred—by this time a tycoon—relentlessly lectured his four sons on the evils of collectivism and the value of hard work. He had no intention of raising a brood of “country-club bums” who would coast along on the family fortune. The 1950s were almost over before he bought the kids a television, and even then they had little time to watch it.

They had no allowance, only the money they earned by manual labor. While the children of the upper crust cavorted in the pool at the Wichita Country Club across the road from the Koch compound, Fred's boys were out in the fields getting calluses on their hands: mending fences, driving tractors, milking cows, pulling weeds, and doing the work required to maintain their father's ranches. They "were treated no differently than lowly cowhands."

Schulman tells the story of one summer when a teenage Charles was sent to Montana's Centennial Valley, where he stayed in a cabin with one Bitterroot Bob, "who was known to take potshots at flies as he lay in bed at night cradling his pistol." On the journey back to school one autumn, he and a ranch hand stopped for lunch in Dillon, where "Charles glanced around the divey restaurant. 'It sure is clean here,' he said."

"Trips to the family ranches were not vacations," writes Schulman, "they were yet another opportunity for Fred to break his children of any privileged tendencies through long days of labor." Pretty egalitarian for a family that has been caricatured as 21st-century Bourbons. Schulman shatters the myth and drills down to the reality, hitting paydirt all along the way.

Sons Frederick, Charles, David, and Bill—the latter twins—each reacted in his own way to their father's stern regime, and in turn they interacted with each other in a way that generated a family saga with the drama of "Downton Abbey" and the message of *Atlas Shrugged*. This is the spine of Schulman's narrative: a tale of loyalty and betrayal, rivalry and retribution, of larger-than-life characters driven by a family legacy they each aspired to live up to.

The exception is Frederick Koch, now 80, the contrary of his father and the rest of the brood. As a child he was sensitive, artistic, and devoted to his glamorous mother, the former Mary Clementine Robinson, an "extrovert who seemed most in her element buzzing around a cocktail party: in short, the exact opposite of her no-nonsense old country boy of a husband." Yet the couple complemented each other. In the case of the somewhat effeminate Frederick, however, opposites did not attract. Indeed, Fred seems to have been so repulsed by his son—whom he later practically cut out of his will—that he disappeared Frederick from a bio in John Birch Society brochures, which said the JBS National Council member only had three sons.

Young Freddy was sent off to prep school and was rarely heard from until the family drama reached its climax after the father's death. Always apart, he chose Harvard while the other three brothers went to MIT, where the hot competition that had raged between Charles and Bill—often expressed in pugilistic terms—cooled to a slow simmer. David was the easygoing one: athletic, even-tempered, and well-liked, he was the virtual opposite of his twin Bill, who was emotional, aloof, and often vindictive. Charles was a more cerebral version of his father: steady, goal-oriented, the archetypal entrepreneur out of an Ayn Rand novel.

After graduating, Charles worked for a Boston consulting firm for a couple of years, resisting his father's insistence that he come home to Wichita and run the family business. Finally, old Fred flat-out told him if he didn't come back he was going to sell the company.

Charles returned in 1961 to find the patriarch's health failing. On November 17, 1967, Fred was out duck hunting when he saw one directly overhead and took careful aim. As the duck dropped from the sky he exclaimed, "Boy, that was a magnificent shot!" And then died.

At the age of 32, Charles found himself at the head of a corporate empire that included oil interests, vast swathes of ranchland, an engineering division—which he had spent the last six

years building up—and other holdings. By 1968, the company he renamed in honor of his father was worth some \$1.7 billion in today's dollars. (The combined worth of Charles and David now tops \$100 billion.)

How did he do it? With a business philosophy that combined lessons learned at his father's knee with those learned in the rough-and-tumble spontaneous order of the market. Charles Koch has the skills of a general and the mind of a philosopher, as any reader of his book *The Science of Success* can see. In it, he applies the theories of Ludwig von Mises and the Austrian school of economics to the problem of how to address the company's core capabilities—the ability to create valuable products out of raw commodities—to new markets. Expansion is the leitmotif of his career, but with this proviso: “Koch companies have suffered,” he wrote, “when we forgot we were experimenting and made bets as if we knew what we were doing.”

When he took over from his father, Charles not only immersed himself in the details of the business but also undertook a systematic study of philosophy, economics, political science, and history because he understood that the success of his company—his life's work—depended on the condition of the society it was selling to and serving. This was his doorway to libertarianism.

In the early 1960s, Charles attended the Freedom School, a modest lodge surrounded by little cabins set amid the scenic foothills of Colorado's Rampart mountain range. There he listened to the lectures of the school's founder and leading light, the libertarian pacifist Robert LeFevre, an idiosyncratic figure whose charisma and absolute devotion to the idea of a stateless society—which he called “autarchy”—attracted support from a variety of wealthy businessmen. The school also attracted the then-obscure Milton Friedman, novelist Rose Wilder Lane, economist Gordon Tullock, and the legendary libertarian journalist Frank Chodorov.

Upon returning to Wichita, Charles discovered the works of Mises, Hayek, Friedman, and the existentialist psychologist Abraham Maslow, among others. His father's relentless political instructions and moral maxims were significantly modified by reading the libertarian greats, who inspired this man of action to immerse himself in a small and at that time little-known movement.

Amid the tumult of the 1960s and the Vietnam war, the cadres of the nascent libertarian movement were shaking off their submergence in the Cold War right of William F. Buckley Jr. and *National Review* and harkening back to an older tradition: the libertarian anti-interventionism of 1930s conservatism. This current had practically faded out of existence as McCarthyism swept the 1950s and the Buckleyites recruited rightward-moving Trotskyists like James Burnham and former Stalinists like Willi Schlamm. These leftists turned militant anti-Communists were the ancestors of today's neoconservatives, who finally emerged in great numbers during the 1960s as “Scoop Jackson Democrats”—named after the hawkish Washington senator—battling the children's crusade around Eugene McCarthy, the 1968 peace candidate of the left.

The Birchers were initially against the Vietnam War, due in part to Welch's paranoia—he thought it was a Communist plot to entrap America—and in part to the society's heritage: it had preserved some remnants of the Old Right tradition, reprinting Garet Garrett's classic anti-New Deal anti-interventionist screed *The People's Pottage*, which lamented the rise of an American empire. But under pressure from their war-mongering base and a constant stream of denunciations from *National Review*, JBS founder-leader Robert Welch changed his position to “Victory, Then Peace,” as Schulman points out.

Welch wound up denouncing the fiercely antiwar LeFevre, and the Koch brothers took LeFevre's side. Together with Bob Love, an old Bircher and wealthy businessman who had been Fred's good friend, Charles took out a full-page ad in the *Wichita Eagle* headlined "Let's Get Out of Vietnam Now!"

Jane Mayer, in her 2010 *New Yorker* jeremiad attacking the Kochs, made light of the more colorful aspects of LeFevre's thought, but it was his influence that sent one of the wealthiest and most politically influential figures on the American right down the road to a more humane and enlightened philosophy.

A fork in that road was Charles's developing relationship with the economist Murray Rothbard, the intellectual progenitor of modern libertarianism and the ideological polestar of the Ron Paul phenomenon. Rothbard, like Charles, was not content to sit around theorizing. At a seminal meeting at a ski lodge in Vail, Colorado, in the winter of 1976, the two discussed what course to take—and what came to be known as the "Kochtopus" was born.

Rothbard wrote a lengthy memo outlining an ambitious plan that would come to fruition with the injection of a large amount of Koch funding. There would be a think tank, a magazine, a campus group, seminars and grants for promising libertarian scholars—all of which came to pass in the form of the Cato Institute; *Inquiry*, a biweekly directed at the left; a movement magazine, *Libertarian Review*; and a campus group dubbed Students for a Libertarian Society (SLS).

To manage this operation, Charles and Rothbard recruited Edward H. Crane III, a young financial consultant and stockbroker whose tenure as head of the barely four-year-old Libertarian Party had demonstrated rare organizational abilities. A four-story glass-and-steel building at the foot of San Francisco's Telegraph Hill was secured to house Cato, while across the street the ancillary organizations—SLS, *Libertarian Review*, and the Libertarian Party—took up residence in a converted warehouse.

From the first months of 1977 to the summer of 1979, Cato was the epicenter of a veritable hive of libertarian activism. When Ed Clark, an oil executive, garnered 5.5 percent of the vote as the Libertarian Party candidate for California governor in 1978, the buzzing got louder. As the 1980 presidential election loomed, with Clark poised to carry the Libertarian banner, expectations were high. Charles kept a close eye on all this, conferring with Crane on a daily basis.

This activity reached a crescendo at the 1979 Libertarian Party convention, held in Los Angeles's Bonaventure Hotel, where Clark was nominated for president with David Koch as his running mate. The presence of a Koch on the ticket was openly explained as a way to get around campaign-finance laws, which favored the major parties by limiting campaign contributions and thus ensuring that no third party could challenge the duopoly.

What happened next was a tragedy brought about by the failure of Charles to apply his own Market-Based Management (MBM) principles to the task he was undertaking. Far from the decentralized decision-making advocated in *The Science of Success*, the Clark campaign was run from the top down by Ed Crane. Another principle of MBM is integrity, which Koch defines as an essential element of "principled entrepreneurship." This too was thrown by the wayside as Crane insisted on watering down the libertarian message. The final straw was Clark's interview with Ted Koppel on "Nightline," where he explained that libertarianism is really "low-tax liberalism."

Rothbard blew his top. From that point on, a factional war erupted within the Kochtopus. It didn't end until the 1983 national Libertarian Party convention, where "Boss Crane" was narrowly defeated and the "Crane Machine" walked out of the party en masse. Cato, under Crane's leadership, hightailed it to Washington, D.C., eager to put as much physical and ideological distance as possible between the "respectable radicalism," as Crane put it, of the Koch-funded wing and the unmanageable libertarian grassroots. At a special meeting of the Cato board, Rothbard was summarily kicked out.

"The proper epitaph for the Clark campaign," Rothbard pithily summed up, "is this: And they didn't even get the votes!" Libertarian principle had been traduced, the party platform ignored, and still Clark received less than 1 percent, not even breaking one million votes.

The Kochs were soon besieged on another front, as an enemy within raised his head to challenge Charles and David—brother Bill. Throughout their childhood, Bill had fiercely competed with Charles: although their sojourn at MIT had relieved the tensions for a while, Bill's resentment resurfaced. Haunted by the idea that his parents had favored Charles over him, he lashed out at his two brothers and their mother over Christmas dinner 1979, making such a scene that their mother got up and walked out. The family would never spend the holidays together again.

Bill unleashed his rage in a series of lawsuits—including a "whistleblower" suit in which he asked the Environmental Protection Agency to penalize Koch Industries for alleged malfeasance—and became a nemesis who would dog Charles and David for many years. The key battle in this war was an attempt by Bill and his allies on the Koch board to take over the company. Frederick, who owned some 15 percent of the shares, came out of the woodwork to side with Bill. The ploy almost succeeded: it wasn't until J. Howard Marshall II, their father's old business partner, persuaded his sons who owned shares not to go along with the coup that Charles escaped Bill's wrath.

But it didn't end there: employing private investigators who went through Charles's and David's garbage, bugging phones, and slandering his brothers in public, nothing was out of bounds as far as Bill was concerned. As portrayed by Schulman, vindictive is too mild a word to describe "Wild Bill." Pathological is more like it, and this is clearly Schulman's view as he describes Bill's tantrums and his Machiavellian machinations to bring his brothers down.

It was a battle on a titanic scale, one Bill eventually lost, albeit only after inflicting years of public brawls and emotional pain on his brothers. Charles and David emerged scarred but unbowed. Charles was determined to make his mark on a country he saw going into irreversible decline: having abandoned third-party politics, he and David undertook an "entryist" strategy that involved influencing the larger conservative movement and the Republican Party in a libertarian direction. A brace of front groups were set up: Americans for Prosperity (initially called Citizens for a Sound Economy) and others with anodyne-sounding names. They also continued to fund the old Institute for Humane Studies, as well as the Cato Institute and the Mercatus Center. But this time Charles was determined to do it right.

Schulman loses his objectivity to a significant degree when his narrative gets to the Obama years. The Tea Party is described as little more than a gang of panting Neanderthals motivated by dark allusions to race. One Tea Party leader is described as "exuding the slippery persona of a car salesman or a TV evangelist"—salesmen and religious folk being inherently dubious from the perspective of a writer for *Mother Jones*. Yet this fit of ideological fury soon passes, and as Schulman resumes his tempered and eminently fair tone he relates the fascinating story of the Kochs' move "out of the shadows."

While there were still tensions between the Koch organization and the conservative Republicans he once denounced—Karl Rove “couldn’t count on the Kochs to fall in step on issues such as immigration, civil liberties, or defense,” reports Schulman—Charles’s strategy of muting libertarian principles in pursuit of a “popular front”-style campaign was basically unchanged from the early days of the Kochtopus. Only instead of trying to pass off libertarianism as “low-tax liberalism,” his new tactic was to pass it off as a subset of conservatism.

Charles began organizing regular meetings of well-heeled conservative donors, including major funders of neoconservative groups, in a characteristically single-minded pursuit of his goal: defeating Obama. Every cog in the Koch political machine was mobilized to carry out the mission. This did not sit well with Ed Crane, still presiding over Cato and who had become distanced from Charles over the years. The conflict came to a head when Charles and Crane traveled to Moscow to convene a conference celebrating the end of Soviet socialism. Charles, Schulman relates, was so moved by the event that he asked Crane if he could address the crowd of more than 1,000. Crane told him no, and Charles was on a plane home the next day—perhaps justifiably miffed at his exclusion from an event his largesse had made possible.

Charles denies this ever occurred and says instead he had concerns over the conference agenda, but there was plainly bad blood between him and Crane. Speaking of the man who made his career as the head of a respected think tank possible, Crane told Jane Mayer: “He’s the emperor, and he thinks he’s wearing clothes.” There was room for only one emperor at Cato, and Crane was determined it wasn’t going to be Charles.

But Charles and David owned Cato shares, and these entitled them to appoint new board members. At the next board meeting, Crane blew his top. Ranting at the new appointees, whom he called “Koch operatives,” he stomped out of the room.

The charge was that Charles and David wanted to drag Cato into politics by providing “intellectual ammunition” to the array of action-oriented nonprofits, like Americans for Prosperity, they were readying for an assault on the White House. Cato, it was said by Crane’s supporters, would lose all credibility if it became associated with Charles Koch and his company. That the think tank had been generously funded by Charles from the beginning was hardly a secret: if the association discredited them, the damage had been done long ago.

Crane was finally convinced to exit Cato: in exchange, Charles and David agreed to change the unique organizational charter that had kept the institute securely within the Koch family orbit. It was Rothbard’s revenge: the libertarian lodestar had gone to his reward in 1995, but Murray’s followers watched the coup play out in the media with more than a shade of *schadenfreude*. Having cleared the decks, Charles and David readied themselves for the showdown with President Obama. They latched onto Mitt Romney as the instrument of their hopes.

There is, oddly, no mention here of the one person most Americans associate with the libertarian cause: Ron Paul is completely absent from these pages. Supporting him apparently wasn’t even a remote possibility for the Kochs. This might be baffling to the outside observer, but there is a good reason for it: the historic division in the libertarian movement stretching back to 1983, when Crane and the Kochs split with Rothbard. After this two movements existed side by side, sometimes trading potshots but more often simply ignoring each other, like former lovers who avert their eyes whenever they run into each other on the street.

Fiercely competitive, shocked by the ferocity of the left’s coordinated attack on their integrity, and fearing for the fate of the business to which they had devoted their lives, Charles and David

were so invested in their anti-Obama crusade that they forgot the first principle of Market-Based Management, that “Koch companies have suffered when we forgot we were experimenting and made bets as if we knew what we were doing.”

Schulman reports David’s shock as the election results came in: he was monitoring the news “with disbelief,” according to a close friend. While “the stars had seemed aligned for the political transformation the Kochs and their allies had dreamt of,” somehow victory had eluded them. David blamed the Tea Party, “bone-headed candidates” who talked about social issues, and an extended primary process that had supposedly hobbled Romney from the start. “We got to do better with primaries,” David declared—as if giving the Ron Pauls of this world less opportunity to expose the hollowness of the establishment would somehow increase the Republican Party’s appeal to the public.

“All the plotting and planning, the donor conclaves, the piles of money—it hardly seemed worth it” to the brothers, writes Schulman. “Charles and David had taken a high profile stand. ... They had accepted the scorn, the death threats and the damage to their family legacy. But in the end they had paid the price without reaping the reward.” Or as Rothbard would put it: “And they didn’t even get the votes!”

Sons of Wichita pinpoints the dilemma at the heart of the Koch saga: the inability to translate theory into practice. Schulman quotes a former Koch executive close to the brothers who says they “won’t likely repeat the errors of 2012” because “they are smart people. They learn from their mistakes.” They can only learn, however, by identifying the nature of their error, and one big factor may be standing in the way: their enormous pride.

The initial frontrunner for the 2016 GOP presidential nomination is the son of a man who represents the other strand of libertarianism, the one they broke with 15 years ago. While Charles and David were looking for immediate gratification with Romney and ignoring the longer term political battle, Ron Paul was building a real grassroots movement, a solid launching pad for his son, the junior senator from Kentucky. The Kochs made an alliance of convenience with Karl Rove—but do they have the humility to make an alliance of principle with their former comrades to put Rand Paul in the White House?

We’ll know soon enough.

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