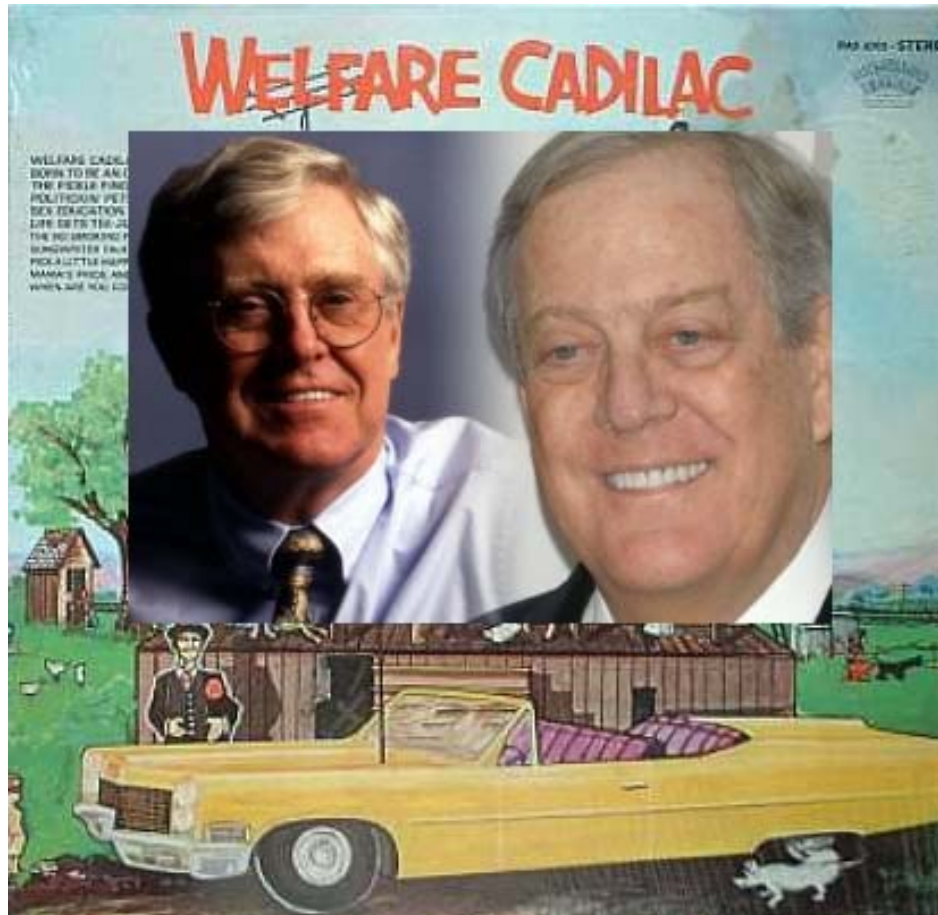


**A PEOPLE'S HISTORY OF KOCH INDUSTRIES, PART II:
LIBERTARIAN BILLIONAIRES CHARLES AND DAVID KOCH
ARE CLOSETCASE SUBSIDY KINGS WHO MILK BIG
GOVERNMENT TYRANNY, BUT WANT TO SLASH SPENDING
ON ANYONE ELSE**



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Mainstream America is finally getting to know the billionaire brothers backing the libertarian movement, thanks to a pair of **dueling profiles** in *New York* and *The New Yorker*. Now that we've heard about their charitable giving, David's 240-foot mega-yacht and role as patrons of the Tea Party movement, it's time to ask a more serious question: How libertarian are they?

The short answer...not very.

Charles and David Koch, the secretive billionaire brothers who own Koch Industries, the largest private oil company in America, have spent millions bankrolling free-market think tanks and pro-business politicians in order, as David Koch has put it, “to minimize the role of government, to maximize the role of private economy and to maximize personal freedoms.” But a closer look at their dealings reveals that for the past 35 years the brothers have never shied away from using government subsidies to maximize their own profits, even while endeavoring to limit government spending on anything else. Simply put: the Kochs have no problem with socialism — as long as they’re in on the action.

In 1977, Charles Koch founded the Cato Institute, an influential libertarian think tank, with the aim of injecting free-market ideas into the mainstream. The Kochs would go on to establish and fund a vast network of overlapping think tanks, institutes, foundations, media outlets, and lobby groups that would vilify centralized government and promote laissez-faire capitalism as the only route to economic prosperity. The Mercatus Center, Americans for Prosperity, Reason Magazine, the Federalist Society and the Heritage Foundation are just a few of the right-wing organizations that run on Koch cash today.

Koch Industries is America’s **second-largest private corporation**, with revenue of \$100 billion in 2009, and 80,000 employees in 60 countries. According to Charles Koch, Koch Industries has grown 2,000-fold since he took over from his dad in 1967, transforming a middling oil transportation and refinement operation into a **corporate mini-state involved in oil, petrochemicals, paper, agriculture and financial services**. Worth just under \$20 billion apiece, the brothers live like emperors. David Koch, 70, resides in a Park Avenue and likes to take a few weeks off every year to lounge on his 246-foot megayacht in the Mediterranean, which costs \$500,000 a week to operate and has been rented out for pleasure cruises by Prince Charles.

Seventy-four-year-old Charles G. Koch, who runs the company from a compound in Wichita, Kansas, has attributed the company’s success to an unshakable belief in the power of the free-markets—a belief that he says can be traced back to an “intellectual epiphany” he experienced at a conference more than 40 years ago. There, Koch realized that free-market economics were an objective reality “as immutable as the laws that work in science,” **he explained in 2006**.

In its recent profile, the *New Yorker* called Charles and David Koch “the primary underwriters of hard-line libertarian politics in America.” But the magazine failed to mention that their free market philanthropy belies the immense profit they have made from corporate welfare.



1. SOCIALIST SHIPBUILDING

Two years before founding the influential Cato Institute, Charles Koch bought a supertanker from a communist regime. According to information in the Lehman Brothers business archives, as well as records found in a Croatian shipyard, in 1975, Koch Industries purchased ship from the Socialist Republic of Yugoslavia. **The ship, a standard 274,330-ton dual use tanker, was named after the Kochs' mother, Mary.**

The purchase of a ship from Yugoslavia would not have been a big deal, had the Kochs not been the ones doing the buying. With the whole free world to choose from, why would a supposedly true-believer libertarian like Charles Koch buy a vessel produced in a communist country—and name it after his own dear mother, to boot? After all, didn't Austrian school economist Ludwig Von Mises, an early influence on Charles' intellectual journey to libertarianism, write in his 1933 seminal work, *Socialism: An Economic and Sociological Analysis*, that centrally planned economies are so inherently inefficient that "socialism must fail"?

It turned out that Yugoslavia's highly-centralized economy was the opposite of inefficient—it was on fire. In the 1960s and 1970s, the country was churning out, among other things, low-

cost, high-quality ships that were sold around the world. Even the old-school libertarian magazine *The Freeman* couldn't help but praise the country's economic performance, writing in 1988, "Many of Yugoslavia's industries seemed highly competitive in world markets, and there were even astonishing reports that efficient Yugoslav shipbuilders wrested contracts away from the Japanese."



2. VENEZUELAN FERTILIZER

In 1998, Koch Industries entered into a lucrative partnership with two state-owned companies—one Venezuelan, the other Italian—to open a massive \$1 billion nitrogen-based fertilizer plant in Venezuela called **Fertinitro**.

A business venture with two state-run companies? How did Koch Industries find itself in this libertarian nightmare scenario? After all, Charles Koch's own **Cato Institute** brain trust has been writing for decades that state-owned enterprises are less efficient and productive than private companies.

Fertilizer production requires massive amounts of natural gas, and obtaining it can account for 50 percent of operating costs. Luckily for Koch, Fertinitro's semi-state-owned status

allowed it to tap into a guaranteed supply of natural gas subsidized by the state. Steven Bodzin, a former Bloomberg journalist, found that “just on the natural gas, never mind the electricity or water subsidies, Koch profits from a direct Venezuelan government subsidy of \$1.23 for every thousand cubic feet of gas consumed at Fertinitro.” For Koch Industries, whose role in the partnership is to unload half of the 6 million tons of fertilizer produced by Fertinitro every year on the American market, **that equals up to \$123.6 million in subsidies every year.**

Savor the irony: While tea partiers wave Koch-funded placards comparing President Obama to Hugo Chavez, the Kochs are busy profiting off Chavez’s socialist economy—only to turn around and blame Venezuela’s poverty on Hugo Chavez’s socialist policies.



3. RANCHING

For the past fifty years, through its Matador Cattle Company subsidiary, Koch Industries has been **quietly milking** a New Deal program that allows ranchers to use federal land basically for free. Matador, one of the ten biggest domestic cattle ranching operations, has something in the neighborhood of 300,000 acres of grazing land for its cows—two-thirds of which belong to American taxpayers, **who will never see a penny of profit.**



4. LOGGING

In 2006, **Koch Industries acquired pulp and paper giant Georgia-Pacific** for a \$21-billion cash payment, allowing the Koch brothers to tap into a whole new area of government largesse: the ability to log public forests for private gain and have taxpayers cover the operating costs. Not only can companies like Georgia-Pacific, which is the world's leading manufacturer of paper products, exploit a publicly-shared resource without sharing the profits, but the U.S. Forestry Service subsidizes them to do it by forcing taxpayers to fund the construction of new logging roads that provide loggers with access to virgin growth—a nice welfare arrangement for the industry that costs **taxpayers over \$1 billion a year**.

“Private logging of America’s National Forests is a heavily subsidized form of corporate welfare,” wrote Scott Silver, founder and executive director of Wild Wilderness, a conservation watchdog, at the time of the Georgia-Pacific’s sale to Koch Industries. “**Logging companies such as Georgia-Pacific strip lands bare, destroy vast acreages and pay only a small fee to the federal government in proportion to what they take from the public.**”



5. ETHANOL

Just two weeks ago, **Koch Industries got into the ethanol business** by buying two ethanol plants in Iowa. Other than defense, ethanol is possibly the most subsidized industry in America. Koch's own Cato Institute has called ethanol a "**boondoggle**," writing that "the dizzying array of federal, state and local subsidies, preferences and mandates for ethanol fuel are a sad reflection of how a mix of cynical politics and we-can-do-anything American naiveté can cloud minds and distort markets." The institute has sharply criticized the billions of dollars in federal and state subsidies that are poured into the ethanol industry (between \$5 billion and \$6.8 billion in 2006 alone).

Koch Industries has traded ethanol for years on the commodities market, but their entry into the production side of the business puts them in a position to profit off the subsidies in a more direct manner.



6. EMINENT DOMAIN

Although highly diversified, Koch Industries' vast network of oil and gas pipelines remains the company's core business and main source of revenue. The exact size of their pipeline network is not known, but some estimate that Koch Industries operates anywhere between 35,000 and 50,000 miles of pipelines between Texas and Canada—enough plumbing to wrap around the globe twice or zigzag between New York and Los Angeles 15 times. How did the Kochs manage to build up a pipeline network of this magnitude? By getting the government to use its tyrannical powers of eminent domain forcibly seize private property on Koch Industries' behalf.

As far as libertarians are concerned, eminent domain is a socialist tyranny straight out of the Leninist playbook, as it recognizes the government as the real owner of all land and vests it with the power to expropriate private property for alleged public good. At the most fundamental level, libertarians believe that eminent domain invalidates the notion of private property rights, threatening not just prosperity, but freedom. Charles Koch is clear on this. "Countries that clearly define and protect individual private property rights stimulate investment and grow," he writes in his book *The Science of Success*. "Those that threaten and confiscate private property lose capital and decline."

But not all property rights are created equal. A Koch Industries oil pipeline recently built in Minnesota shows that Charles Koch does not see anything wrong with the government confiscating private property, as long as he stands to make a profit.

Completed in 2008, the **304-mile line** now carries crude oil from the Canadian border to a Koch Industries refinery near the Twin Cities area via a two-foot-wide pipe. Company PR execs pitched the pipeline as a public benefit project, as it would increase Minnesota's gasoline supply. But the 1,000-plus landowners who were forced to handover their private property so that Koch Industries could run its pipeline didn't quite see it that way. "People's rights were violated, and they never got their due process," a farmer whose fields were going to be cut in two by the pipeline **told a newspaper in 2007**. "It's wrong. People's property is one of the most important things to their livelihood."



7. STALIN

Before Fredrick Koch suddenly developed a pinko paranoia and helped start up the John Birch Society, he was making piles of cash laying the foundation of Soviet oil infrastructure in the 1920s and early 1930s. He designed and built refineries, hosted Soviet engineers for training in Wichita, Kansas, and made an invaluable contribution to the rapid industrialization

of the Soviet Union during Joseph Stalin's first Five-Year Plan. This is a touchy issue for the Koch family: without the Commie Reds providing his future seed capital, Koch Industries would not exist today—and neither would the Tea Parties.

When I wrote about the Koch family's wealth and its connection to the Soviet Union in April 2010, libertarians rushed to the Kochs' defense, arguing that business decisions made when they were children had no bearing on Charles and David Koch. They are not their father, and cannot be blamed for his sins—which is true. The brothers are better at the libertarian lie than their father ever was: their self-help libertarianism is more effective pro-billionaire propaganda than his racist Bircher rants. But while the tone may be different, the objective is very much the same: to con the American people into voting against their own interests.



8. TAKEAWAY MESSAGE

The next time you hear Michele Bachmann (*who's a welfare queen in her own right*) screaming at the top of her lungs that socialized healthcare is "reaching down the throat and ripping the guts out of freedom" or watch a Cato Institute shill on Meet the Press layout a case for why you should support the privatization of social security, remember: they aren't hypocrites, they're cons looking to rip you off.

Yasha Levine is an editor of [The eXiled](#). Levine and co-author Mark Ames first broke the connection between the Tea Party and the billionaire Koch brothers in [Playboy.com](#) in February 2009, sparking lawsuit threats, and causing [CNBC's Rick Santelli to publicly distance himself from the Tea Party movement and cancel his Daily Show appearance](#).

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