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## How the Koch network created the Ex-Im fight

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The fate of the U.S. Export-Import Bank, a federally chartered agency that Congress once routinely reauthorized without even a formal vote, has roiled conservative politics in recent months, dividing business-oriented Republicans from fiscal hardliners.

There's one reason for that: The Koch brothers and their allies made it an issue.

The vast network of conservative academic research programs, think tanks, messaging outfits and advocacy groups funded by Charles and David Koch and their mega-donor cohort put the obscure agency on the political radar and turned it into a litmus test on Capitol Hill.

Closing the bank, which provides financing to companies to cover unpredictable expenses associated with doing business overseas, became a battle cry among the House conservatives who forced Speaker John Boehner's resignation. Controversy over the bank stalled a major trade bill, sparked a nasty clash between Ted Cruz and Senate Majority Leader Mitch McConnell and led in June to the expiration of the bank's charter for the first time since its creation in 1934.

The Ex-Im Bank, as it's become known, now appears to be back on track to win reauthorization in Congress. Its supporters in October used a rare parliamentary maneuver to resuscitate the bank's prospects, and a provision to reauthorize it is now tucked into a bipartisan transportation bill that is expected to win approval.

But the issue is likely to resurface again in future congressional debates — and possibly even in upcoming GOP congressional primaries. Both Ex-Im supporters and opponents hint that they'll seek vengeance against Republican incumbents who crossed them. And the Koch network, which plans to spend as much as \$889 million in the run-up to the 2016 election, promises that Ex-Im is just one in a series of battles it's planning in its efforts to reorient the GOP — and American politics as a whole.

“We’ve taken an issue that I bet you the majority of members of Congress were not familiar with — certainly not rank and file activists and folks across the country — and we’ve made it an important example of why government cronyism is a bad thing. So it’s been a victory,” crowed Tim Phillips, president of the Koch-network-funded advocacy group Americans for Prosperity, which started agitating against the bank in 2013. “We spent a lot of money — both as

AFP and the broader network that we're a part of — on (Ex-Im), all targeting Republicans, so it's not just lip service," he told POLITICO in October. "Whether we win or lose, we're going to keep fighting on this individual issue, but also on the broader issue of government cronyism."

On Wednesday, as the effort to reauthorize the bank moved forward, Marc Short, president of the Koch network's central group, Freedom Partners Chamber of Commerce, promised that the network wouldn't back down from other fights against government programs it deemed wasteful and anti-capitalist. "Many Washington lawmakers campaign on fiscal responsibility, but what they vote for once elected often paints a different picture about what they really value. We'll continue fighting to protect hardworking Americans by rooting out corporate welfare and opposing taxpayer handouts for corporations," he said.

The Koch network's willingness to pick the fight was noteworthy precisely because it wasn't marching in step with establishment Republicans. It was promoting the Kochs' own brand of libertarian-infused conservatism, which views the bank as an example of government activism that skews the marketplace.

Now, Republican leaders are warily eyeing the Koch networks' expanding political muscle. While the network has mostly boosted the GOP in elections, the Ex-Im fight hints at ways in which it could challenge the party orthodoxy, highlighting the Kochs' willingness to take on pragmatic business interests like the U.S. Chamber of Commerce, which had mostly operated in an uneasy alliance with free-market purists like the Kochs and their allies. In the Ex-Im fight, the chamber wing answered the "cronyism" criticism by arguing that the bank aids job creation. And it rallied Hill support by spending heavily on lobbying and drawing on its local business connections — a strategy that appears likely to prevail this time.

But fault lines were revealed. And the Koch network, which had donated \$2 million to the U.S. Chamber in 2014, now is building up its own capabilities in preparation for future fights. The network in recent years has won conservative policy victories in the states on issues ranging from right-to-work in Wisconsin to tax cuts in North Carolina torolling back renewable energy mandates in Kansas.

It is planning more federal-level fights that could pit it against other GOP interests and, in so doing, shift the shape of the party, itself.

### **Battle of ideas**

Most of the network's fights take shape in one of the many think tanks or academic research institutions funded by the Kochs and the donors they convene twice-a-year for strategy and fundraising conferences. Over the years, they have donated hundreds of millions of dollars for policy research. It "has been a great investment for a number of years, frankly," Kevin Gentry, the network's lead fundraiser, told donors during a 2014 gathering, according to secretly recorded audio posted online by a liberal activist. "It predates significantly our investment in the electoral process."

The intellectual ammunition for the Ex-Im fight mainly traces back to two such think tanks — the Cato Institute and the Mercatus Center — which the Kochs seeded back in the late 1970s and early 1980s, respectively. Since then, Koch family foundations have donated more than \$100 million to Cato and George Mason University, which houses the Mercatus Center, billed as "the

world's premier university source for market-oriented ideas." Those bastions of libertarian free-market thinking for years published research seeking to debunk claims that the bank bolstered job creation and trade. While that research occasionally surfaced in the work of conservative columnists and commentators, some of whom also received funding from the Koch network, it mostly just bounced around the libertarian echo chamber.

Congress became more fertile turf for such ideas after the 2010 midterm elections. The tea party wave, which was harnessed by Americans for Prosperity and other Koch-backed groups, gave Republicans a House majority. By 2012, congressional Ex-Im opposition was on the uptick, with a Senate vote to reauthorize the bank drawing 20 "no" votes. It still passed easily.

Things started really changing in 2013, when AFP and a handful of newer Koch-backed advocacy groups took the fight mainstream. They formed a coalition of 30 outfits opposing reauthorization, including sometime rivals like the Club for Growth and Heritage Action, which — like the U.S. Chamber — have received funding through the Koch network hub, Freedom Partners Chamber of Commerce, but have not always seen eye-to-eye with the Koch operation.

AFP paid for hundreds of thousands of mailers into GOP congressional districts warning that the bank "has given billions in risky loans to politically connected foreign companies in China, Russia, Venezuela and Saudi Arabia — all backed by your taxpayer dollars." Freedom Partners launched a radio ad asserting the bank "sends billions of tax dollars to foreign corporations that compete unfairly with American jobs. That's billions to countries like China, Russia, Saudi Arabia, that violate human rights and suppress democracy." The Washington Post's fact checker called the ad's claims "questionable," and gave the ad three Pinocchios out of four. Still, similar messages were echoed through AFP phone banks in which operators patched voters through to their congressional offices, resulting in more than 100,000 calls to Republican member offices.

Generation Opportunity, a Koch-backed outfit targeting millennials, launched a novel GI Joe spoof web ad depicting bank supporters as cartoon villains duping congressmen into supporting reauthorization by promising campaign cash. And Freedom Partners did message-testing on anti-bank talking points, which it distributed to partner groups. It also joined AFP in distributing the work of allied scholars from Cato and Mercatus, and in directly lobbying members of Congress and potential 2016 presidential candidates to oppose reauthorization.

Suddenly, key Republican lawmakers who until recently had supported the bank came out in opposition, including House Majority Leader Kevin McCarthy of California and Sens. John Boozman of Arkansas, Richard Shelby of Alabama and John Thune of South Dakota. Other Ex-Im supporters-turned-opponents include Reps. John Carter of Texas, Rick Crawford of Arkansas, Bill Flores of Texas, Bob Goodlatte of Virginia, Trey Gowdy of South Carolina, Steve Scalise of Louisiana and Lamar Smith of Texas.

Ex-Im eventually became an issue on the presidential campaign trail. Almost all of the Republican candidates came out against it aggressively, including Sens. Ted Cruz of Texas, Rand Paul of Kentucky and Marco Rubio of Florida, former Florida Gov. Jeb Bush and former Hewlett-Packard CEO Carly Fiorina — all of whom have been invited to discuss the issue at events sponsored by Koch-backed advocacy groups. The congressional debate prompted

Democratic frontrunner Hillary Clinton to express her support for reauthorization, which gave Freedom Partners an opening to step up its attacks on her.

While a cross-section of GOP lawmakers played down the Koch networks' influence on the debate during interviews with POLITICO last month, Rubio has been more expressive.

“It is obscure. You don't hear a lot of conversation about it, and it certainly isn't a topic of conversation in the news or in the newspapers, and people don't know that it's there,” Rubio said during an event sponsored by AFP this summer in New Hampshire. “Only in the last couple years as outside groups have paid attention — not just to its existence but to how it's actually working — has it risen to a level of consciousness in the political realm. So I think that's really what's driven it is the fact that groups like AFP and others have made it a priority to inform Americans about it.”

There's an important lesson in the evolution of the Ex-Im debate, said Veronique de Rugy, a senior research fellow at the Mercatus Center, whose articles and blog posts opposing the bank have been circulated by Koch-backed advocacy groups and other critics.

“It started with intellectuals fighting the battle of ideas for a long time in the think tank world,” said de Rugy. “And I wish that the ideas were enough, because politics is dirty. But it's not enough. In order to change the world, you have to be able to change the minds and the hearts of the American people, so you need to get out of the ivory tower and take the ideas to the people. I can't necessarily do it, because I don't have the skills, but there are people who can do it.”

### **“Structure of Social Change”**

That's more than just de Rugy's theory of the case. It's essentially the model for reshaping society developed over decades by Charles Koch and his right-hand man Rich Fink, who co-founded the Mercatus Center and still sits on its board, as does Koch.

The model — called the “Structure of Social Change” — is sort of like the network's instruction manual. In presentations to donors and operatives, Koch and Fink use a simple four-tiered pyramid graph to illustrate the structure's blueprint for converting ideas into policy. Based on a model of economic production by Austrian economist F.A. Hayek — a Koch favorite — it features academia at the top, where scholars like de Rugy devise theories and ideas.

The next level down is think tanks, like Cato, where the “raw materials” produced by the scholars are refined and tested. Issue advocacy groups then “transform complex and ‘wonky’ ideas into relatable educational materials and distribute for citizens and lawmakers to learn and understand,” according to a version of the pyramid in a briefing book for prospective Americans for Prosperity donors obtained by POLITICO. AFP considers itself to be part of this phase of the pyramid. Politicians targeted by the group occupy the pyramid's bottom tier — “Decision Makers,” or the lawmakers who “debate ideas and enact policy.”

It's no accident that politicians scrape the bottom of the pyramid. As Charles Koch told Fox News anchor Megyn Kelly in October “I've never been that fond of politics, and only got into it recently kicking and screaming, because I don't think politicians are going to reverse the trajectory of this country.”

The most potent weapon to convince politicians to go along with the Kochs' policy prescriptions, of course, would be targeting non-compliant incumbents facing GOP primary challenges, which would force members of Congress to campaign furiously and spend down their war chests before facing off against Democratic rivals in the general election. Historically, the Koch network has been reluctant to take that approach, but it now appears to be under consideration. As POLITICO reported last month, some in the network are advocating the targeting of between six and 12 GOP House members who have run afoul of the Koch orthodoxy on fiscal issues and who are facing 2016 primary challenges.

“They’ve said to members of Congress: If you don’t vote our way we’ll contribute to your opponents. It frightens a lot of members,” said Senate Minority Whip Dick Durbin (D-Illinois). But he suggested that, if the Koch network doesn't back up its lobbying by wading into campaigns, then “after this battle and this vote, the next time around there will be a lot of skepticism” about the network's demands.

If the Koch network did mount such primary challenges, it would undoubtedly give its policy stances more weight in Congress. However, while AFP president Phillips told POLITICO “We have not taken any options off the table,” Republican Ex-Im supporters don’t seem too worried about incurring the network's wrath.

Sen. Dean Heller of Nevada said he has told Koch-backed advocacy groups that he supports the bank and “I’m not changing my vote.” Heller added “They ding me on it, but that’s fine.”

Other Ex-Im supporters such as Sen. Jerry Moran of Kansas say the network hasn’t even attempted to turn them against the bank. “I hate to say ‘no,’ because it may encourage them to do so,” said Moran, a vocal Koch defender who represents the home state of the brothers’ multinational industrial conglomerate Koch Industries. “But I’ve not had conversations with the organizations that have this as a significant priority.”

While the network categorizes about two-thirds of its spending as related to issues like Ex-Im, much of that spending has a political edge. Nonetheless, the distinction is important to understanding how the Kochs and their allies see their mission.

Art Pope, a North Carolina dollar-store mogul and longtime Koch confidant, explained the distinction this summer at a Koch donor conference that featured presentations by GOP presidential candidates Cruz, Bush, Fiorina and Rubio. “You always have to implement the decisions, and the way you do that is through the electoral process,” Pope said. “So I think what you’re seeing is that we still have the emphasis on the academic and policy issues, but the culmination is having the policy leaders and decision makers here today.”

### **Self-interest vs. societal interest**

To the Kochs — as well as close allies like Pope, Fink and Gentry — policy shifts pursued through social change are all about improving society as a whole by unleashing the power of the free market to create prosperity. But even the Kochs’ staunchest allies concede that there are instances in which the company’s bottom line tracks closely with their political network’s advocacy.

In fact, for years, the example that Fink held up to prove the efficacy of the structure of social change was a fight that Koch Industries, which has its roots in the fossil fuel industry, considered a threat to its very existence — the ambitious legislative effort to reform national energy policy in 2009 and 2010.

The Koch network had for years funded studies that attempted to downplay industry's role in climate change. And Koch Industries lobbied aggressively against legislative efforts to address the phenomenon. It reported spending more than \$20 million on federal lobbying in 2009 and 2010. A particular focus was the effort to defeat an energy reform proposal spearheaded by Sen. Lindsey Graham and then-Sens. Joe Lieberman and John Kerry, who had called it the “best and perhaps last chance for Congress to pass a comprehensive approach.”

In private presentations over the years, Fink, an executive vice president of Koch Industries who is described as the network's “grand strategist,” seemed to credit the political organization with killing the bill, which would have enacted a cap on carbon emissions.

He boasted that the network used a Spanish academic study calling into question the economics of such caps to shape opinion on the Hill, while network groups applied pressure that was pivotal in forcing Graham to step away from the proposal. About a week after Graham and Kerry published a New York Times op-ed announcing their pursuit of a market-based system for reducing carbon emissions, Americans for Prosperity and another Koch-backed group, American Energy Alliance, launched a statewide radio advertising campaign in Graham's home state of South Carolina, pressuring him to back down. The ad campaign was supplemented by tens of thousands of emails and telephone calls on the subject to state activists. A week later, AFP launched a “Cost of Hot Air” tour in the state with a series of rallies featuring a 70-foot hot air balloon with a massive sign warning that the carbon cap plan “means lost jobs, higher taxes, less freedom.”

Climate science and energy reform proposals — once primarily the domain of scientists and policy wonks — became a staple at tea party rallies across the country, and Republicans who dared touch the issue came under intense pressure from not just the energy lobby, but the conservative media and base.

Facing this new reality, Graham backed out of the negotiations in April 2010, essentially killing the bill. At the time, Graham blamed then-Senate Majority Leader for prioritizing consideration of immigration reform over the energy overhaul.

And this week, a spokesman for Graham — who is running for president but has been excluded from Koch network presidential forums — scoffed at the notion the Kochs’ opposition played a role in his backing away from the climate change effort, suggesting they’ve exaggerated their influence.

“There are some in Washington who would credit themselves with the rotation of the earth if they found someone foolish enough to believe it,” said Kevin Bishop, a Graham spokesman. “The Democrats sank this bill—nobody else should take the blame or the credit for that fact.”

But AFP president Phillips, reflecting later on the evolution of energy politics, said his group deserved credit for building a consensus on the right against dramatic energy reforms and planting skepticism about climate change science more broadly.

“The science has become political,” he told National Journal in the weeks before voting started in the 2012 GOP presidential primary, in which most of the candidates questioned whether human activity was causing climate change and opposed measures to address the issue. Phillips said that candidates who “buy into green energy” do so at their “political peril. The vast majority of people who are involved in the [Republican] nominating process — the conventions and the primaries — are suspect of the science. And that’s our influence. Groups like Americans for Prosperity have done it.”

### **Other fights**

Many of the fights in which the Koch political network is currently engaged have little, if any, bearing on Koch Industries.

For instance, a major focus has been the push to reform the criminal justice system by allowing less stringent sentences than mandatory minimums, improving legal representation for poor defendants and addressing sentencing disparities for the disadvantaged.

And there are other instances in which the Koch political network has actually lobbied against programs that are in Koch Industries’ best interest, such as ethanol subsidies. The company has accepted those, but says it opposes them because they skew the market like the Ex-Im Bank does.

Likewise, Koch Industries has in the past benefited from the Ex-Im bank. Foreign customers have, for example, received loan guarantees to purchase products from Koch subsidiary Georgia Pacific, the consumer paper products company. The company says it participated in the program because it didn’t want to put itself at a disadvantage to its competitors, but it notes that it has lobbied against the bank.

“We oppose all forms of corporate welfare — including all forms of subsidies, such as cash payments, loan guarantees, anti-competitive regulations, restrictions on trade, mandates, import tariffs, and tax breaks — even if they currently benefit us,” said Koch Industries spokesman Ken Spain. “Unfortunately, our economy has become riddled with such policies, most of which are essentially baked into the system, making them impossible to avoid. That is why we play by the current rules of the game — whatever they are and whether we like them or not — but we will continue to oppose and actively advocate against all forms of corporate welfare.”

In fact, some Republican lawmakers have privately expressed befuddlement over why the Koch network would take such an aggressive stand on an issue in which the Kochs and their donors have little bottom-line interest.

“Who is it hurting?” one Republican lawmaker asked. “You would normally be looking at whose ox is getting gored, wouldn’t you? It’s not the taxpayers. It’s not some industry who feels left out ... It’s so mystifying.”

But AFP's Phillips said the Ex-Im fight makes perfect sense as part of a long-term push to end government interference in the free market — a cause that he says need reinforcing on the political right.

If Republicans support reauthorization, "we're going to hold them accountable," he said. "Republicans spend every campaign cycle out there telling folks — and certainly their base — that government spends too much and does too much. And then they turn around and when it comes to corporate cronyism and government cronyism, they throw billions of dollars at some of the richest companies in the world."