SCRIBE

# DARK MONEY

How a SECRETIVE GROUP of BILLIONAIRES is TRYING to BUY POLITICAL CONTROL in the US

JANE MAYER

'Utterly brilliant and chilling.' Naomi Klein

Billions and billions are involved in formaldehyde." Harold Varmus, a former director of the National Cancer Institute, who knew Koch as a donor to scientific institutions, noted that many philanthropists had large business interests but admitted that he was "surprised" to learn of the company's stance on formaldehyde.

The Kochs' corporate interests clashed with their philosophical positions on other issues as well, including their opposition to government-supported "crony capitalism." Koch Industries took full advantage of a panoply of federal subsidies, ranging from artificially low grazing fees on the 40 percent of their 500,000 acres of cattle ranches that used federal lands, to a deal with the Bush administration in 2002 to sell eight million barrels of crude oil to fill the Strategic Petroleum Reserve, a federal supply set aside as a hedge against market disruptions. "Can you think of any more anti-free-market tool than the Strategic Petroleum Reserve?" asked a former Koch executive. "Energy doesn't operate in a free market," he pointed out.

Koch Industries' practices belied its owners' virtuous talk in other ways, too. According to an investigative report by *Bloomberg Markets*, Koch Industries was "involved in improper payments to win business in Africa, India and the Middle East" and had "sold millions of dollars of petrochemical equipment to Iran, a country the U.S. identifies as a sponsor of global terrorism." The report suggested that the Kochs' Iranian deals flouted a trade ban put in place against the outlaw state by President Clinton in 1995. Koch Industries acknowledged that it had helped Iran build what became the largest methanol plant in the world in the midst of the trade embargo but insisted that the deal had been structured in a strictly legal way, by relying on foreign subsidiaries. The company subsequently fired the employee who exposed the controversial practices.

Yet as Charles and David continued to plow 90 percent of their company's profits back into their business—a strategy they often noted would be impossible if they were required to pay quarterly dividends to public shareholders—its revenues grew phenomenally. In 1960, it grossed a healthy $70 million, but by 2006 it was grossing an astounding $90 billion. "It is beyond spectacular," one Wall Street investment banker, Roger Altman of Evercore, observed. "It's just gigantically successful. It is in *everything*."

CHAPTER FIVE

# The Kochtopus: Free-Market Machine

AFTER SUFFERING HUMILIATING LOSSES IN THE COURTS AND CONgress, the Kochs began to retool their approach not just to business but also to politics. They began to engage far more strategically, funneling money into the pursuit of power in a whole new way. More than anyone else, the man behind the Kochs' political transformation was Richard Fink, nicknamed the Pirate by detractors within their sphere for the handsome living he made on their payroll.

Fink was famous for flying to Wichita in the late 1970s as a twenty-seven-year-old graduate student, wearing a garish blue tie, a checkered shirt, and a brand-new white-piped black polyester suit, to beg for money from Charles. "What a jackass I looked like," he later admitted. After growing up in Maplewood, New Jersey, in a family that he joked made *The Sopranos* look like a home movie, Fink had become a devotee of Austrian free-market theory. He hoped Charles would fund a program in it at Rutgers in New Jersey, where he was teaching part-time while pursuing a graduate degree at NYU. Courses in Austrian economics were as rare as Viennese waltzes in most colleges at that time. But soon after Fink made the pitch, Charles pledged $150,000 for the program. When Fink later asked Charles why he'd thrown so much money at a long-haired, bearded graduate student in a shiny disco suit, Charles had supposedly quipped, "I like polyester. It's petroleum based."

By the late 1980s, Fink had supplanted Cato's Ed Crane as Charles Koch's main political lieutenant. Unlike Crane, who was interested in libertarian ideas but regarded it as "creepy when you have to deal with politicians," Fink was fascinated by the nuts and bolts of power. After studying the Kochs' political problems for six months, he drew up a practical blueprint, ostensibly inspired by Hayek's model of production, that impressed Charles by going beyond where his own 1976 paper on the subject had left off. Called "The Structure of Social Change," it approached the manufacture of political change like any other product. As Fink later described it in a talk, it laid out a three-phase takeover of American politics. The first phase required an "investment" in intellectuals whose ideas would serve as the "raw products." The second required an investment in think tanks that would turn the ideas into marketable policies. And the third phase required the subsidization of "citizens" groups that would, along with "special interests," pressure elected officials to implement the policies. It was in essence a libertarian production line, waiting only to be bought, assembled, and switched on.

Fink's plan was tailor-made for Charles Koch, who deeply admired Hayek and approached both business and politics with the systematic mind-set of an engineer. While some might find it disturbing to regard the democratic process as a factory, Charles soon adopted the approach as his own. As he told Brian Doherty, the libertarian writer, "To bring about social change requires a strategy that is vertically and horizontally integrated." It must span, he said, from "idea creation to policy development to education to grassroots organizations to lobbying to political action." Before long, libertarian wags had dubbed the Kochs' publicity-shy, multiarmed assembly line the Kochtopus, a name that stuck.

In contrast to their idealistic but amateurish approach during the old Libertarian Party days, with Fink's help the Kochs' methods became decidedly more pragmatic. Facing serious threats to their business, they began playing the Washington political game as aggressively as any other corporation, if not more so. After the public relations fiasco of the Senate hearings into Indian oil theft, for instance, Koch Industries crossed ideological lines to hire Robert Strauss, the former chairman of the Democratic National Committee, who was by then Washington's premier lobbyist. The company soon opened an office in the capital, which grew into a formidable in-house lobbying operation. Fink explained that it had been necessary for the company



to establish a presence in Washington because it had felt "so brutalized by the process" and lacked "corporate defense" capabilities.

The Kochs had previously disdained conventional politics, but now they became major Republican donors. "It was the investigation that got them to the Republican Party," notes Kenneth Ballen, the former counsel to the Senate's investigative committee. Before that, he points out, "Charles had been so far right he was off in the ether. They thought Reagan was a sellout. But they were worried about their business. It was about power." Doherty saw the Kochs' embrace of the Republican Party in much the same way. He credits the Kochs with being by far the largest funders of libertarian ideas but notes they also became "direct funders of Republican politicians for all the same reasons other businesses are. It confuses a lot of people in the libertarian world, who think of them as sellouts," he conceded.

Their investment quickly transformed the brothers' political status. By 1996, they had grown into major players in the Republican Party. David Koch went from dismissing Bob Dole, the senator from Kansas, the home of Koch Industries, as just another "Establishment" politician "with no moral principles," in the early 1980s, to becoming the vice-chair of Dole's 1996 presidential campaign against Bill Clinton. No longer an outsider, the Koch family became Dole's third-largest financial backer. David Koch in fact hosted a birthday party for Dole, at which the candidate raised $150,000.

Dole reportedly helped the Kochs, too. Critics said he did them a legislative favor designed to indemnify companies like theirs that had been charged with regulatory violations from having to pay huge federal legal fines. But the proposed legislative fix died when a sudden outbreak of salmonella in hamburgers scared Congress from weakening such penalties. Had it passed, though, it would have nullified tens of millions of dollars in fines that had been levied on Koch Industries. According to *The Washington Post,* Koch Industries did succeed in getting Dole's help on another matter, an exemption from a new real estate depreciation schedule, a favor that saved the company millions of dollars. As Dole conceded decades later, after he retired from politics, "I've always believed when people give big money, they—maybe silently—expect something in return."

The Kochs' affinity for hardball in politics, as in business, soon stirred controversy. In 1997, they became the focus of yet another

Senate investigation. That year, the Clintons were in the headlines for campaign-finance scandals ranging from virtually renting the Lincoln Bedroom to big donors to taking contributions from a dubious Democratic bundler who later pleaded guilty to raising some of the money from China. The bundler, Johnny Chung, had infamously said, "I see the White House is like a subway. You have to put in coins to open the gates." In retaliation, the Democrats in the Senate, who were in the minority, conducted their own much less noticed probe, which soon led to the two little-known brothers from Wichita.

The Democrats produced a scathing report exposing what they called an "audacious" scheme by undisclosed big donors to illegally buy elections in the final moments of the 1996 campaign. It was undertaken by a suspicious shell corporation called Triad Management Services that had paid more than $3 million for unusually harsh attack ads against Democratic candidates in twenty-nine races. More than half of the advertising money came from an obscure nonprofit group whose real source of funds was a mystery, the Economic Education Trust. The Senate committee's investigators believed that "the 'trust' was in fact financed in whole or in part by Charles and David Koch of Wichita, Kansas." The trust was a front group, according to the Senate report, designed to conceal the real donors' identities, in violation of campaign-finance laws.

The brothers, who had long opposed restrictions on their political spending, were suspected of having secretly paid for the attack ads, most of which aired in states where Koch Industries did business. In Kansas, where Triad Management was especially active, the funds were suspected of having tipped the outcome in four close races. The conservative Republican Sam Brownback's race for the U.S. Senate received a special boost, which included a barrage of phone calls informing voters that his opponent, Jill Docking, was a Jew. The shady victories in Kansas had national impact, helping Republicans retain control of the House of Representatives, despite President Clinton's reelection.

The Kochs, when asked by reporters if they had given the money, refused to comment. Charles Koch also failed to respond to an inquiry from the Senate investigators. In 1998, however, *The Wall Street Journal* finally confirmed a link, noting that a consultant on the Kochs' payroll had been involved in the scheme. Republicans argued that they were simply trying to balance the score against spending by



labor unions, but in 1998 business outspent labor by a ratio of twelve to one. In the end, the Federal Election Commission ruled that the Triad scheme was illegal and fined its president and founder, Carolyn Malenick. Other participants, however, were never identified.

Charles Lewis, who heads the Investigative Reporting Workshop at American University and who founded the Center for Public Integrity, a nonpartisan watchdog group, describes the Triad scandal of 1996 as a "historic" moment in American politics. There had of course been many bigger campaign scandals before then. But Triad was a new model. He said it was the first time a major corporation used a tax-exempt nonprofit as a front group or, as he put it, "a cutout to secretly influence elections in a threatening way." He said the Kochs showed that "you could dump a million dollars on someone's head by using cutouts." After reporting on political corruption in Washington for years, Lewis concluded that "Koch Industries was the poster child of a company run amok."

What made the Koch family's growing financial role in American politics extraordinary was not just its willingness to flout the rules but also the way that in accordance with Fink's plan it merged all forms of political spending—campaign, lobbying, and philanthropic—into one investment aimed at paying huge future dividends to the donors. Lewis's Investigative Reporting Workshop spent a year in 2013 culling through the Kochs' financial records and concluded that their operation was "unprecedented in size, scope, and funding" and also in the way that it was "mutually reinforcing to the direct financial and political interests" of Koch Industries.

In 1992, David Koch likened the brothers' multipronged political strategy to that of venture capitalists with diversified portfolios. "My overall concept is to minimize the role of government and to maximize the role of the private economy and to maximize personal freedoms," he told the *National Journal*. "By supporting all of these different [nonprofit] organizations I am trying to support different approaches to achieve those objectives. It's almost like an investor investing in a whole variety of companies. He achieves diversity and balance. And he hedges his bets." !

What resulted from this approach was a complicated flowchart enabling the Kochs to use their fortune to influence public policy from an astounding number of different directions at once. At the top, the funds all came from the same source—the Kochs. And in the end, the contributions all served the same pro-business, limited-government goals. But they funneled the money simultaneously through three different kinds of channels. They made political contributions to party committees and candidates, such as Dole. Their business made contributions through its political action committee and exerted influence by lobbying. And they founded numerous nonprofit groups, which they filled with tax-deductible contributions from their private foundations. Other wealthy activists made political contributions, and other companies lobbied. But the Kochs' strategic and largely covert philanthropic spending became their great force magnifier.

By 1990, enterprising conservative and libertarian activists were wearing a path to Wichita, where they, like Fink before them, would pitch their proposals to Charles Koch in hopes of his patronage. Typical was the experience in 1991 of two former Reagan administration lawyers, Clint Bolick, a former aide to Clarence Thomas, and William "Chip" Mellor III, in search of seed money for a new kind of aggressive, right-wing public interest law firm that would litigate against government regulations in favor of "economic liberty." Mellor recalled thinking, "Who else would give us enough money to be serious?" According to Mellor, after lower-level aides initially turned down the proposal, Charles Koch himself committed $1.5 million on the spot, but with strings attached, keeping him in control. As Mellor recalled, "He said, 'Here's what I'm going to do. I'll give you up to $500,000 a year for three years, each year, but you have to come back each year and demonstrate that you've met these milestones that you've set out to accomplish and I will evaluate it on a yearly basis, and there's no guarantees.'" The legal group, the Institute for Justice, went on to bring numerous successful cases against government regulations, including campaign-finance laws, several of which reached the Supreme Court.

"In recent years," a prescient news story noted in 1992, "money from Wichita has gushed into the coffers of virtually every Washington think tank and public interest group dedicated to free-market economics and the libertarian credo of minuscule government regulation." In 1990 alone, the article noted, the three main private foundations controlled by Charles and David Koch disbursed $4 million to such ostensibly nonpartisan but politically motivated groups.

Few outside the rarefied world of far-right, laissez-faire economics noticed, but the Kochs' multidimensional political spending kept



growing. Between 1998 and 2008, for instance, Charles Koch's private fund, the Charles G. Koch Charitable Foundation, made more than $48 million in tax-deductible grants, primarily to groups promoting his political views. The Claude R. Lambe Charitable Foundation, which was controlled by Charles and his wife, Liz, along with two company employees and an accountant, similarly made more than $28 million in tax-deductible grants. David Koch's fund, the David H. Koch Charitable Foundation, made more than $120 million in tax-deductible grants—many to cultural and scientific projects rather than political. Meanwhile, during those years Koch Industries spent more than $50 million on lobbying. Separately, the company's political action committee, KochPAC, donated some $8 million to political campaigns, more than 80 percent of it to Republicans. In addition, the Kochs and other family members spent millions more on personal campaign contributions.

Only the Kochs know precisely how much they spent on this sprawling political enterprise, because the public record remains incomplete. By dispersing much of the money through a labyrinth of nonprofit groups, the Kochs made the full extent of their political "investment" difficult if not impossible for the public to detect. In 2008 alone, public tax records indicate that the three main Koch family foundations gave money to thirty-four different political and policy organizations, three of which they founded and several of which they directed.

There were some legal boundaries. By law, tax-exempt charities, which the IRS designates as 501(c)(3)s, must refrain from involvement in lobbying and electoral politics and serve the public rather than their donors' interests. But such laws are rarely enforced and are subject to flexible interpretation.

Critics began to complain that the Kochs' approach to philanthropy subverted the purpose of tax-exempt charitable giving. A 2004 report by the National Committee for Responsive Philanthropy, a watchdog group, found the Kochs' philanthropy self-serving. "These foundations give money to nonprofit organizations that do research and advocacy on issues that impact the profit margin of Koch Industries," it charged.

But the Kochs defended the millions they gave to groups fighting environmental regulations and supporting lower taxes on industry and the rich as public-spirited. Several longtime associates questioned this. Gus diZerega, the former family friend, suggested that the Kochs' youthful ardor for libertarianism had largely devolved into a rationale for corporate self-interest. "Perhaps he has confused making money with freedom," he said of Charles. One conservative who worked closely with the Kochs but declined to be identified in order not to inflame the relationship went so far as to call their tax-exempt giving "a shell game." He contended they merely saw philanthropy as preferable to paying taxes. "People say, 'Wow—they're so generous!'" he marveled. "It's just the best available option for them. If they didn't give it to their causes, they would have to give it to the government. At least this way they control how it's spent." He noted that by blending their corporate and charitable work, "they draw some pretty fine lines. It's really another form of lobbying." But he conceded, "They've built a pretty amazing machine."

From the start, the Kochs exerted unusually tight personal control over their philanthropic endeavors. "If we're going to give a lot of money, we'll make darn sure they spend it in a way that goes along with our intent," David Koch has acknowledged. "And if they make a wrong turn and start doing things we don't agree with," he told Doherty, "we withdraw funding."

An early example of Charles Koch flexing his muscles took place at the Cato Institute in 1981, when he fired one of the think tank's five original stockholders. Ironically, although Charles had criticized Robert Welch for turning the John Birch Society into a cult of personality by flaunting his ownership of the organization's stock, Charles had set Cato up in the same way, as a nonprofit with stockholders, who picked the board of directors. The arrangement was rare in the nonprofit world. But as Charles had observed of the John Birch Society, it guaranteed the directors an unusual measure of continuing control.

The director whom Charles fired at Cato was a major figure in libertarian circles, Murray Rothbard, a radical Upper West Side Jewish intellectual whose work Charles had subsidized in happier days. Rothbard called the putsch "iniquitous," "high-handed," and "illegal." He went on to claim that Charles had "confiscated the shares which I had naively left in Koch's Wichita office for 'safekeeping,' an act clearly in violation of our agreement as well as contrary to every tenet of libertarian principle."

Some suspected that Rothbard, an Austrian economic school pur-



ist, was fired for criticizing Koch, whom he had accused of watering down unpopular libertarian positions in order to get more votes for his brother's 1980 candidacy. The platform, for instance, had pulled back from advocating the complete abolition of all income taxes. It also called for shrinking rather than abolishing the military. The controversy set off alarms in the hothouse libertarian community, marking Charles in the eyes of those who took Rothbard's side as ruthless and rapacious, more interested in power than in principle.

Charles's drive for control was the focus later of testimony that Rothbard gave in one of the many rounds of fights between the four Koch brothers over their patrimony. A memo summarizing Rothbard's prospective testimony quoted him saying that Charles "cannot tolerate dissent" and will "go to any end to acquire/retain control over the nonprofit foundations with which he is associated." Rothbard accused Charles of dictating everything from the office decor to the design of Cato's stationery. Further, he alleged that while Charles wanted "absolute control" of the nonprofits with which he was associated, he was intent on "being able to spend other people's money." This criticism would later be reprised in connection with the Koch seminars, which some saw as Charles's means of creating a political slush fund filled with other people's money but under his own control. Rothbard also accused Charles of using nonprofit organizations to "acquire access to, and respect from, influential people in government."

In the mid-1980s, as called for in the first phase of Fink's plan, the Kochs also began to establish an academic beachhead of their own. Their particular focus was on George Mason University, a little-known campus of Virginia's prestigious higher education system, located in the Washington suburbs. In 1977, *The Washington Post* described the school as toiling in "the wilderness of obscurity." By 1981, Fink had moved his Austrian economics program there from Rutgers, eventually naming it the Mercatus Center. The think tank was entirely funded by outside donations, largely from the Kochs, but it was located in the midst of the public university's campus, so it touted itself, somewhat misleadingly, as "the world's premier university source for market-oriented ideas—bridging the gap between academic ideas and real-world problems."

Financial records show that the Koch family foundations donated some $30 million to the school, much of it going to the Mercatus Center. *The Washington Post* described Mercatus as a "staunchly anti-regulatory center funded largely by Koch Industries Inc." This, however, raised questions about whether the Mercatus Center was in fact an independent intellectual center or an extension of the Kochs' lobbying operation. Clayton Coppin, who taught history at George Mason and compiled the confidential study of Charles's political activities for Bill Koch, describes Mercatus outright in his report as "a lobbying group disguised as a disinterested academic program." The arrangement, he points out, had financial advantages for the Kochs, because it enabled Charles "to have a tax deduction for financing a group, which for all practical purposes is a lobbying group for his corporate interest."

Sharing a building with the Mercatus Center was the heavily Koch-funded Institute for Humane Studies, chaired by Charles Koch. The IHS was founded by F. A. "Baldy" Harper, a free-market fundamentalist who had been a trustee at the Freedom School, where he had written essays for *The Freeman*, calling taxes "theft," welfare "immoral," and labor unions "slavery" and opposing court-ordered remedies to racial segregation. Charles Koch had eulogized Harper glowingly, saying, "Of all the teachers of liberty, none was as well-beloved as Baldy, for it was he who taught the teachers and, in teaching, taught them humility and gentleness."

The aim of the IHS was to cultivate and subsidize a farm team of the next generation's libertarian scholars. Anxious at one point that the war of ideas was proceeding too slowly, Charles reportedly demanded better metrics with which to monitor students' political views. To the dismay of some faculty members, applicants' essays had to be run through computers in order to count the number of times they mentioned the free-market icons Ayn Rand and Milton Friedman. Students were tested at the beginning and the end of each week for ideological improvement. The institute also housed the Charles G. Koch summer internship program, a paid fellowship placing students who shared the Kochs' views in like-minded nonprofit groups, where they could join the libertarian network.

George Mason's economics department, meanwhile, became a hotbed of controversial theories that began to transform Americans' tax bills, serving as an incubator for the supply-side tax cuts in the Reagan administration that hugely advantaged the rich. Paul Craig Roberts, an adjunct professor at GMU, drafted a precursor to the first supply-side tax cut bill of the Reagan era, which was introduced by his



former boss Congressman Jack Kemp. While these tax cuts starved the government, George Mason also belittled its role philosophically. A star on its faculty was James Buchanan, the founder of "public choice" theory, who often described his approach as "politics without romance" because he categorized elected officials and public servants as just another greedy, self-aggrandizing private interest group, a view popular with antigovernment libertarians. In 1986, Buchanan was awarded a Nobel Prize in economics. Liberal economists were aghast. Robert Lekachman, for instance, lambasted Buchanan for reducing "all human behavior to simple self-interest." The prize nonetheless was an indisputable achievement, helping to put the school, and libertarianism, on the map.

Julian Sanchez, a fellow at the Cato Institute, soon exalted George Mason as a "libertarian mecca," saying, "It may well be the most heavily libertarian-staffed institution of higher education in the country." Liberals, however, regarded the Kochs' singular influence over the school with suspicion. "It's ground zero for deregulation policy in Washington," said Rob Stein, the Democratic political strategist who studied how the right wing spent money. Noting the Kochs' unusually large role, he said, "George Mason is a public university and receives public funds. Virginia is hosting an institution that the Kochs practically control."

The many hats that Rich Fink wore only underscored critics' concerns. As he grew in importance to Charles Koch, Fink relinquished his formal role at the Mercatus Center, handing its stewardship off to a protégé, and joined Koch Industries as its head of lobbying but remained on the university's prestigious Board of Visitors. He also was at one point the president of the Charles G. Koch Charitable Foundation, the president of the Claude R. Lambe Charitable Foundation, a director of the Fred C. and Mary R. Koch Foundation, and an integral member of several of the Kochs' political groups. The fungibility of his roles hinted at the fine line between nonprofit and for-profit pursuits within the Kochs' enterprise.

As Fink's star rose, Crane's fell. Crane still ran the Cato Institute, but in 1992 Charles Koch resigned from the libertarian think tank's board, although David remained a trustee. Associates suspected that Crane, who didn't take orders gladly, had not demonstrated sufficient fealty to his patron. Crane had privately ridiculed Charles's management philosophy, which Charles trademarked under the name Market-Based Management, or MBM, and later distilled into his book *The Science of Success*. In essence, Charles believed that businesses' corporate culture should replicate the competitiveness of the free market. Employees at almost every level of his company were compensated on the basis of the value they created, competing with each other for bonuses, which constituted large portions of their annual pay. Charles described MBM as a "holistic system" containing "five dimensions: vision, virtue and talents, knowledge processes, decision rights and incentives." Some company employees privately mocked the cutthroat culture that MBM fostered as "Making the Brothers Money." *Forbes*, too, lampooned Charles a bit, in its review of his book, describing him as an "autodidact" who had "almost a Marxist faith in 'fixed laws' that 'govern human well-being'" and whose "system for grading employees" was "especially obtuse."

Despite the mixed reviews, Charles insisted that personnel in all corners of his enterprise adhere to his system, setting aside regular time to practice and review the techniques. "It became exactly the kind of bureaucracy that libertarians detest," noted one former employee, before adding, "He's the billionaire, not me, so who knows?" Market-Based Management embraced the notion that employees at every level, even the bottom, might have superior ideas to those at the top. Theoretically, it was an egalitarian approach, yet how open Charles really was to those like Crane who challenged his top-down authority is debatable. Many found him remarkably humble for one of the wealthiest men in the world, noting that he lunched regularly in the company cafeteria alongside his employees. But in a 1999 speech, Charles likened his fixed beliefs to those of Martin Luther, the founder of Protestantism. "In that, I echo Martin Luther," he said of his own free-market views. "Here I stand. I can do no other." The comparison was revealing.

In any case, Crane was less than reverent when Charles tried to impose his management system on the Cato Institute. From his large office in Cato's strikingly modern, light-filled Washington headquarters, Crane later made clear that he regarded Charles as a serious thinker and an exemplary businessman, but he couldn't help but poke fun at MBM. "He thinks he's a genius. He's the emperor, and he's convinced he's wearing clothes," Crane said with a snicker. Fink,



by contrast, was much more solicitous of Charles's ideas. "Richie exploited MBM to the hilt," a Cato official said of Fink. "He took over with a shiv" in Crane's back. "He's well named!"

With Cato and the Institute for Humane Studies, the Kochs checked off the first item on Fink's shopping list for social change—institutions that could hatch scholarly ideas in line with their own thinking. The Mercatus Center checked off the second item, a more practical organization aimed at promoting these ideas into action. Its location, just across the Potomac from the Capitol, was a bonus, enabling its fellows to testify regularly as independent experts at congressional hearings. By 2004, *The Wall Street Journal* dubbed it "the most important think tank you've never heard of" and noted that fourteen of the twenty-three regulations that President George W. Bush placed on a "hit list" had been suggested by Mercatus scholars. Eight of those were environmental protections. Fink told the paper that the Kochs have "other means of fighting [their] battles" and that the Mercatus Center does not actively promote the company's private interests. But Thomas McGarity, a law professor at the University of Texas who specialized in environmental issues, argued that "Koch has been constantly in trouble with the EPA, and Mercatus has constantly hammered on the agency." One environmental lawyer who clashed repeatedly with the Mercatus Center dismissed it as a lobbying shop dressed up as a nonprofit, calling it "a means of laundering economic aims." The lawyer explained the strategy: "You take corporate money and give it to a neutral-sounding think tank," which "hires people with pedigrees and academic degrees who put out credible-seeming studies. But they all coincide perfectly with the economic interests of their funders."

In 1997, for instance, the EPA moved to reduce surface ozone, a form of air pollution caused, in part, by emissions from oil refineries. Susan Dudley, an economist who became a top official at the Mercatus Center, came up with a novel criticism of the proposed rule. The EPA, she argued, had not taken into account that by blocking the sun, smog cut down on cases of skin cancer. She claimed that if pollution were controlled, it would cause up to eleven thousand additional cases of skin cancer each year.

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In 1999, the District of Columbia Circuit Court embraced Dudley's pro-smog argument. Evaluating the EPA rule, the court found that the EPA had "explicitly disregarded" the "possible health benefits of ozone." In another part of the opinion, the court also ruled, 2–1, that the EPA had overstepped its authority.

Afterward, the Constitutional Accountability Center, a watchdog group, revealed that the judges in the majority had previously attended one of the all-expenses-paid legal seminars for judges that were heavily funded by the Kochs' foundations. This one had taken place on a Montana ranch run by a group that the Kochs helped subsidize called the Foundation for Research on Economics and the Environment. The judges claimed that their decision was unaffected by the junket. Their embrace of the Mercatus Center's novel argument, however, soon proved embarrassing. The Supreme Court overruled their position unanimously, noting that the Clean Air Act's standards are absolute and not subject to cost-benefit analysis. Although their side lost in the end, the case illustrated that the Kochs' ideological pipeline was humming.

The most fateful Mercatus Center hire might have been Wendy Gramm, an economist and director at the giant Texas energy company Enron who was the wife of Senator Phil Gramm, the powerful Texas Republican. In the mid-1990s, she became the head of Mercatus's Regulatory Studies Program. There, she pushed Congress to support what came to be known as the Enron Loophole, exempting the type of energy derivatives from which Enron profited from regulatory oversight. Both Enron and Koch Industries, which also was a major trader of derivatives, lobbied desperately for the loophole. Koch claimed there was no need for government policing because corporations' concern for their reputations would cause them to self-regulate.

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Some experts foresaw danger. In 1998, Brooksley Born, chair of the Commodity Futures Trading Commission, warned that the lucrative but risky derivatives market needed more government oversight. But Senator Gramm, who chaired the Senate Banking Committee, ignored such warnings, crafting a deregulatory bill made to order for Enron and Koch, called the Commodity Futures Modernization Act. Despite Born's warning, the Clinton administration embraced the exemptions too, swayed by Wall Street pressure.

In 2001, Enron collapsed in a heap of bogus financial statements and fraudulent accounting practices. But Wendy Gramm had pocketed up to $1.8 million from Enron the year after arguing for the loophole. And it emerged that before going under, Enron had made



substantial campaign contributions to Senator Gramm, while its chairman, Kenneth Lay, had given money to the Mercatus Center.

By the end of 2002, the Gramms had gone into semiretirement, but at the Mercatus Center the zeal to exempt enormously risky markets, including energy derivatives favored by Koch Industries, lived on. The consequences wouldn't become fully visible until the economic crash of 2008. By then, George Mason University was both the largest single recipient of Koch funds for higher education and the largest research university in Virginia.

George Mason was the Kochs' largest libertarian academic project but far from the only one. By 2015, according to an internal list, the Charles Koch Foundation was subsidizing pro-business, antiregulatory, and antitax programs in 307 different institutions of higher education in America and had plans to expand into 18 more. The schools ranged from cash-hungry West Virginia University to Brown University, where the Kochs, in the tradition of the Olin Foundation, established an Ivy League "beachhead."

At Brown, which is often thought of as the most liberal of the Ivy schools, Charles Koch's foundation gave $147,154 in 2009 to the Political Theory Project, a freshman seminar in free-market classics taught by a libertarian, Professor John Tomasi. "After a whole semester of Hayek, it's hard to shake them off that perspective over the next four years," Tomasi confided "slyly," according to a conservative publication. Charles Koch's foundation gave additional funds to Brown to support faculty research and postdoctoral candidates in such topics as why bank deregulation is good for the poor.

At West Virginia University, the Charles Koch Foundation's donation of $965,000 to create the Center for Free Enterprise came with some strings attached. The foundation required the school to give it a say over the professors it funded, in violation of traditional standards of academic independence. The Kochs' investment had an outsized impact in the small, poor state where coal, in which the Kochs had a financial interest, ruled. One of the WVU professors approved for funding, Russell Sobel, edited a 2007 book called *Unleashing Capitalism: Why Prosperity Stops at the West Virginia Border and How to Fix It*, arguing that mine safety and clean water regulations only hurt workers. "Are workers really better off being safer but making less income?" it asked. Soon, Sobel was briefing West

Virginia's governor and cabinet, as well as a joint session of the Senate and the House Finance Committees. The state Republican Party chairman declared Sobel's antiregulatory book the blueprint for its party platform.

In 2014, a sparsely regulated West Virginia company, Freedom Industries, spilled ten thousand gallons of a mysterious, foul-smelling chemical into the drinking water of Charleston, the state's largest city, triggering panic in 300,000 residents, whom authorities ordered away from their taps. It was just another in a seemingly endless history of tragic industrial disasters afflicting West Virginia. By then, though, Sobel was long gone. He was listed as a visiting scholar at the Citadel in South Carolina, and an expert at the Mercatus Center at George Mason University.

Defenders of the Kochs' growing academic influence, like John Hardin, director of university relations at the Charles Koch Foundation, argued that their grants were bringing ideological diversity and debate to campuses. "We support professors who add to the variety of ideas available on college campuses. And in every case the school maintains control over its staffing and teaching decisions," he wrote in *The Wall Street Journal*.

But in the eyes of critics, the Kochs had not so much enriched as corrupted academia, sponsoring courses that would otherwise fail to meet the standards of legitimate scholarship. John David, an economics professor at West Virginia University Tech who witnessed the school's transformation, wrote in a scathing newspaper column that it had become clear that "entire academic areas at universities can be bought just like politicians. The difference is that universities are supposed to permit open dialogue and exchange of ideas and not be places for the indoctrination of innocent students with dictated propaganda prescribed by outside special interests."

The first two steps of Fink's plan were now complete. Yet the Koch brothers concluded that these steps were still not enough to effect change. Free-market absolutism was still a sideshow in American politics. They needed the third and final phase of Fink's plan—a mechanism to deliver their ideas to the street and to mobilize the public's support behind them. "Even great ideas are useless if they remain trapped in the ivory tower," Charles noted in a 1999 speech. David put it differently. "What we needed was a sales force."

Part Two

# Secret Sponsors

## Covert Operations, 2009–2010

Total liberty for wolves is death to the lambs.

—*Isaiah Berlin*