

Sons of Wichita

HOW THE KOCH BROTHERS
BECAME AMERICA'S MOST POWERFUL
AND PRIVATE DYNASTY

Daniel Schulman



GRAND CENTRAL
PUBLISHING

NEW YORK BOSTON

dad who didn't miss Chase's Biddy Basketball games at the local YMCA and encouraged Elizabeth's interest in literature. Charles's kids, Weigand said, got the kind of love "that Fred, being the John Wayne that he was, didn't have the ability to articulate or to express. Because [Charles's] kids understood the love part."

Outside of the firm and his family, there was a third crucial influence on the CEO's life. It not only changed the way Charles saw the world, but it inspired him to embark on a lifelong crusade to change the world itself.

CHAPTER SIX

Rise of the Kochtopus

On a summer day in the early 1960s, Charles drove up a rutted dirt road that climbed into the heavily wooded foothills of the Rampart Mountain Range. Dense with second-growth Douglas firs and Ponderosa pines, the steep terrain rose 1,000 feet in elevation in the space of a quarter-mile. Nestled into this pastoral tableau, located midway between Colorado Springs and Denver, were a handful of log cabins sited near a long, three-story lodge.

With its gurgling brook, horse stables, and walking trails, the compound looked like a sleep-away camp. In fact, it was a libertarian mecca, where freedom seekers from around the world made pilgrimages to learn at the feet of a gray-haired, bolo-tie-wearing guru. More than a few attendees of the intensive two-week sessions at Robert LeFevre's Freedom School, who prior to their enrollment had perhaps experienced faint stirrings of libertarian identity, emerged as fierce free-market crusaders.

Though LeFevre was the primary instructor, the school's cast of guest lecturers during the 1960s included movement luminaries such as University of Chicago economist and future Nobel Prize winner Milton Friedman, a vocal foe of the Keynesian approach to economics, in which government plays a central role in guiding the economy; Leonard Read, founder of the Foundation for Economic Education, a pioneering free-market think tank; and the journalist Rose Wilder Lane (daughter of Laura Ingalls Wilder of

Little House on the Prairie notoriety), whose broadsides against socialism, Social Security, and the income tax elevated her to a libertarian heroine on par with Ayn Rand. The campus's three-story lodge, where classes were taught, was named in her honor.

LeFevre established the Freedom School in late 1956. In those early years, he had spent mornings churning out libertarian-tinged editorials for his employer, the *Colorado Springs Gazette*, and the remainder of his days building, often by hand, what he hoped would become the world's premier institution for disseminating the gospel of free enterprise and unbridled liberty.

LeFevre was tall, with the melodious voice of a radio announcer (which he had once been). He had the theatrical flair of a showman—or a charlatan. Though he was married, LeFevre's "family" included three other women who had moved with him from California to Colorado in search of a refuge from the oppressive reach of government. He was a onetime devotee of the cultish "I Am" movement, which at its peak in the late 1930s had as many as 1 million followers. It was a theosophical sect that believed in a collection of supernatural beings called the Ascended Masters, a group that supposedly included Jesus, Confucius, and St. Germain, whose souls were reincarnated into new human forms throughout the ages. The movement's cofounder, a former mining engineer named Guy Ballard, claimed he had encountered St. Germain while hiking California's Mount Shasta; Ballard also professed to be the reembodiment of George Washington, among other ancient souls.

LeFevre, who coauthored a 1940 book titled *I Am: America's Destiny*, told of undergoing a religious experience of his own in which he heard a voice intoning, "with the power of thunder," the mantra "I Am." He also spoke of having an out-of-body experience in which he floated through the air to Mount Shasta and of driving a car while asleep with the divine assistance of his "higher mental body." LeFevre worked his way into the upper echelons of

the I Am movement, and when the Justice Department targeted the group's leaders for mail fraud—for sending books containing outlandish claims, including that Ballard, his wife, and their son could cure diseases using supernatural powers—he was among those who were indicted. (The charges were later dropped.)

LeFevre's motley background ran the gamut: He had been an actor, soldier, restaurateur, real estate broker, hotel owner, traveling salesman, TV anchorman, congressional candidate, and newspaper columnist. His experiences dealing with city bureaucrats and union bosses as a landlord and restaurant owner in San Francisco had ultimately soured LeFevre on government. In the 1950s, he aligned himself with a variety of antiunion and anticommunist causes, hitting the lecture circuit to decry the nexus between organized labor and the Communist Party. He worked with right-wing groups including the Wage Earners Committee, which picketed Hollywood films and targeted studio bosses and producers for their supposed communist sympathies.

LeFevre grew into such an ardent foe of government that he refused to vote lest he legitimize it. "Voting is the method for obtaining legal power to coerce others," he argued. He held that any rights government conferred on its citizens it had already robbed them of, and he taught his students that "slavery is rationalized, under the name of government and politics, because of the belief that if we didn't enslave others, the others would enslave us. Thus, we practice slavery on some in order that others should be free." As Brian Doherty detailed in his definitive history of libertarianism, *Radicals for Capitalism*, LeFevre was so puritanical in his philosophy that he "held it to be an impermissible violation of the property rights of an assailant to destroy the ropes he'd tied you up with (just so long as they were his ropes) and just as bad to take a necklace back from a blackguard who stole it from you as it was for the blackguard to take it from you in the first place." His belief in pacifism was equally uncompromising: Once, in the face

of a physical confrontation, he'd simply lain down on the ground and played possum.

By the early sixties, LeFevre had found a receptive audience at the top tier of the John Birch Society by way of Wisconsin steel magnate William Grede, who became an early financial backer of the Freedom School. Grede was a founding member of the Birch Society who, along with Fred Koch, had been present at the organization's birth in Indianapolis.

Bob Love, the Koch family friend with whom Charles had opened a Birch Society bookstore, became deeply involved with LeFevre's school. So did Charles, who was so taken with LeFevre that he roped David into enrolling with him in a two-week Freedom School session.

Charles was an ideal pupil for LeFevre's teachings, which played an important role in shaping the businessman's political views. Not long after he returned home to Wichita from Boston, while browsing his father's wood-paneled library, its shelves crowded with tomes on history and free enterprise, he discovered Austrian economics. He had grown up with his father's dinner-table disquisitions about the depredations of government, the serpentine creep of socialism and communism into American society, so Charles was well primed to receive the wisdom of the Austrians. This school of thought, which formed one of the intellectual pillars of libertarianism, held that economics could be understood only through the prism of human behavior, and its adherents opposed government efforts to meddle with the "spontaneous order" of the markets.

A voracious reader like his father, Charles was driven by a burning curiosity to understand the mechanics of society, the hidden order of things that caused some cultures to founder where others flourished. In his free time, Charles often sequestered himself in his North Woodlawn Street apartment among precarious stacks of books, living a "hermit"-like existence, he has said. With clas-

sical music playing faintly in the background, Charles devoured the works of Austrian economists Friedrich Hayek and Ludwig von Mises, read classical liberal thinkers such as Milton Friedman and Joseph Schumpeter, and he studied the theories of Hungarian polymath Michael Polanyi, who pioneered the concept of spontaneous order.

While Charles read widely across an array of disciplines—from political theory to psychology—he credited two works in particular with launching his intellectual odyssey. The first was the bible of the Austrian school, Mises's *Human Action*, in which the economist wrote that "economics is not about goods and services; it is about human choice and action." Mises, whose controversial views were often condemned by his economic contemporaries, stated in this treatise that "a society that chooses between capitalism and socialism does not choose between two social systems; it chooses between social cooperation and the disintegration of society."

The second, and perhaps more formative tract when it came to Charles's worldview, was F. A. "Baldy" Harper's *Why Wages Rise*. In this slim volume, first published in 1957, the Cornell-trained economist made the case that unions and government intervention do not lead to wage increases, which come solely through "increased output per hour of work." Harper argued that the "greatest opportunity...for a quick increase in wages is to reduce the cost of governing ourselves," and suggested that "compulsory employment devices, such as child labor laws" cause societal ills such as "juvenile delinquency." Harper's book provoked a realization in Charles that he likened to a "peak experience," the term coined by psychologist Abraham Maslow (another thinker Charles admired) for a near religious state of harmony and understanding. Imbued with this euphoric clarity, he later said, "I've never looked back."

His scholarship reinforced his belief, instilled during his

boyhood, that "societal well being was only possible in a system of economic freedom." By his late twenties, Charles had become a full-throated libertarian evangelist. It was an extreme ideology, in which the role of government was nearly nonexistent, and one that fell well outside the traditional left-right poles of political thought.

His appearance in December 1965 at Kansas University's "minority opinions forum" typified his thinking. At a moment when The Byrds' "Turn, Turn, Turn" was topping the charts, this young, square-jawed businessman, who wore thick Buddy Holly-style glasses, blasted the federal government for nurturing a welfare state through "interventionist" policies. The government's sole role in the capitalist system, he told the two-dozen audience members, should be "only to keep a check on those who might attempt to interfere with the laws of supply and demand."

His belief in the cold logic of capitalism was absolute and unforgiving, without room for equivocation or shades of gray. For those businessmen who did not adhere to the laws of the market—who did not create value—he had not a shred of pity. "Every time I hear of an entrepreneur going out of business I cheer," Charles said. "He did not serve the consumer and for that he should be a janitor or a worker."

LeFevre encouraged attendees of his libertarian retreats to pack Western wear and "sturdy shoes." Students bunked in austere wood-paneled rooms, and an outdoor "barbecue breakfast" was held on Sundays. During these two-week sessions, students had mornings to themselves to ride horseback on the mountain trails, pitch horseshoes, play volleyball or badminton, or peruse the school's 3,000-volume library. Classes began after lunch and ran until 9:00 p.m., with a two-hour break for dinner.

Courses delved into the "banalities of socialism" and the "philosophy of freedom," and workshops explored topics including "Education in a Free Society" and "Explorations on Freedom."

LeFevre held a special seminar, "Explorations in Human Action," for business executives that focused on "management and labor relations problems." The school invited participants to bring their wives, but warned that "they would be excluded from class discussions, though they may sit in as observers." (They weren't the only ones excluded from participation. In 1965, LeFevre told *The New York Times* that his school had yet to admit a black person; finding accommodations for them, he said, might prove challenging because of the segregationists among the student body.) LeFevre awarded his students a "certificate of proficiency" at the completion of their courses.

After attending Freedom School classes, Charles joined the school's board of trustees, along with fellow Birchers Bob Love and William Grede. In 1964, Charles became one of six officers at the school, and he personally donated nearly \$7,000 to LeFevre's institution—among the largest contributions the Freedom School received that year. Later, he became a trustee of Rampart College, an unaccredited four-year school LeFevre founded on the Freedom School campus.

By the late 1960s, there was no longer room to be both a Bircher and a LeFevre acolyte. Birch Society founder Robert Welch, who demanded absolute loyalty from his followers, disapproved of LeFevre's offbeat teachings and his approach—which focused on steering clear of government, not engaging it via a quasi-political movement.

The two spheres coexisted uneasily for a time, but Vietnam forced a schism, which was part of a larger split between conservatives and antiwar libertarians. Welch had taken a tortuous position on the war. He at first opposed U.S. involvement, believing America was being lured into a communist trap. But faced with alienating the flag-waving conservatives within the society's fraying ranks, he adopted a more nuanced stance. "Victory, Then Peace" became the society's slogan.

Charles and Bob Love, steeped in LeFevre's pacifist teachings, took a different view, thoroughly opposing the war. In May 1968, they took out a full-page antiwar ad that ran in *The Wichita Eagle*. "Let's Get Out of Vietnam Now," it demanded. Coming from two high-profile John Birch Society members, this was no minor act of defiance. In a May 31, 1968, letter to Charles, William Grede called the advertisement "almost sabotage from within the Society." Charles and Love ultimately parted ways with the Birch Society over Vietnam. Later, in a letter Welch asked Grede to personally deliver to Charles, the Birch Society founder begged him to return to the society: "You belong with us in this fight, Charles, and we need you." But the young CEO was now on a different path.

Many years later, Koch Industries sought to distance Charles and David from Freedom School founder Robert LeFevre, a controversial figure even within his own movement. After *The New Yorker* ran a 2010 article critical of the brothers, describing them as "devotees" of LeFevre, the company responded with an extensive rebuttal. It noted that "while Charles and David Koch both have met LeFevre, they were never 'devotees' of LeFevre..."

Perhaps this was true of David, who followed his brother down the libertarian path and never became the ardent believer Charles was. But it seriously obscured the true nature of Charles's association with LeFevre and the Freedom School, of which he was not just a graduate but a donor and board member. Under LeFevre's tutelage, Charles drifted farther from his conservative roots into new, radical ideological terrain.

By the late 1960s, antiwar protests raged in the streets, schools across the South were being desegregated, and President Richard Nixon was paving the way for closer relations between the United States and Communist China and expanding the federal bureau-

cracy to include the Environmental Protection Agency, the Occupational Health and Safety Administration, and a government-led War on Drugs. Meanwhile, members of the embryonic libertarian movement, composed of a small, unruly cadre of radical thinkers from Left and Right, were doing what they did best: disagreeing about almost everything other than their mutual disdain for government.

Charles increasingly immersed himself in this volatile stew of anarchists, Ayn Rand disciples, laissez-faire economists, disaffected Students for a Democratic Society members, and others on the political fringe. In 1969, Charles hired the first of a series of political adjutants—George Pearson, who joined Koch Industries to oversee Charles's political and philanthropic endeavors. Pearson, who grew up in the small city of Beaver Falls, outside of Pittsburgh, had been a student of Hans Sennholz (a protégé of Austrian economist Ludwig von Mises) at Pennsylvania's Grove City College. Pearson called the economist's class "a defining moment in my life," and he devoted his career to promoting the libertarian ideas Sennholz had awoken him to.

Together Charles and Pearson, then in his late twenties, formed a libertarian supper club in Wichita, where they invited notable speakers to lecture. These events featured the Freedom School's LeFevre on at least one occasion; one attendee recalled that the libertarian guru "converted" his wife "to anarchy in about 30 minutes."

His eyes opened, Charles was not content that the precepts of the libertarian philosophy stay confined to supper clubs, or discussion groups, or Rampart Mountain redoubts. "I was looking for ways to develop, apply, and spread the ideas I was learning," he recalled. The problem was that "no one was familiar with these ideas."

Charles took every opportunity he could to groom like-minded thinkers and identify libertarian converts. Gus diZerega recalled

meeting Charles in the mid-1960s at his Bircher bookstore. A politically precocious high school student, diZerega had attended Birch Society meetings with his mother and he had started a local chapter of Young Americans for Freedom. Spotting diZerega and a friend browsing in the store, Charles led them away from the anti-communist broadsides and over to the special section that he had filled with tracts on Austrian economics and classical liberalism. "Charles said, 'You should start reading this kind of thing,' and then he bought us some books that we could never have afforded," diZerega remembered.

Charles later invited diZerega and his fellow YAF members over to his parents' mansion for long, philosophical talks in the basement. "At that time," diZerega said, "Charles was a very committed libertarian, possibly even what we call an anarcho-capitalist"—that is, someone who believes that virtually every function of society can be privately funded, eliminating the need for government. "He was very interested in ideas, very interested in talking about ideas, the implications of ideas, where they would lead, not just interested in power or money." DiZerega—whose Freedom School education was also bankrolled by Charles—went on to get his Ph.D. in political science from Berkeley and credits the industrialist with setting him on the path to his career in academia. "I would never have gotten into serious academic work, I think, absent his influence."

At the time when diZerega met Charles, there existed little infrastructure to incubate, let alone broadcast, libertarian dogma. Charles assessed the libertarian movement as if sizing up a failing business. In the marketplace of ideas, libertarianism was a product that few Americans wanted to buy, let alone finance, and its intellectuals were held at arm's length by academia. Enraptured by the libertarian philosophy, Charles decided that advancing its precepts would form the backbone of his philanthropic legacy: He became libertarianism's primary sugar daddy.

In 1974, Charles's ideological aide-de-camp George Pearson offered a rare glimpse into the strategic thinking behind his boss's philanthropy at a gathering of nonprofit directors. Pearson was now running the newly formed Charles Koch Foundation, a nonprofit created to finance Charles's libertarian projects.

"We did not see politicians as setting the prevalent ideology but as reflecting it," he noted, explaining that "[Friedrich] Hayek contends that the prevalent ideology is set by the intellectuals.... They are the teachers, preachers, journalists, lecturers, publicists, news writers and commentators, writers of fiction, cartoonists, artists, and all others who disseminate ideas."

Charles's strategy focused on grooming the intellectual class—through education, research funding, and other efforts—who would, in turn, shape public opinion and influence lawmakers. The "intellectual war," Pearson said, would not be won overnight. "It took years to bring this country around to believing that government could solve problems better than the market, and it will take years to get rid of that destructive notion. Belief that government participation is necessary or helpful and that governments are beneficial needs [to be] challenged."

Charles began to invest in institution building. Myriad libertarian and free-market organizations would later thrive because of his largesse. "None of these free market and policy institutions would have survived and prospered without Charles Koch," said libertarian economist Dominick Armentano, an emeritus professor at the University of Hartford, who worked closely over the years with institutions that Charles funded.

In addition to his involvement with the Freedom School in the 1960s, Charles became a board member and key benefactor of the Institute for Humane Studies, which Baldy Harper had initially run out of his Menlo Park, California, garage. Its goal, then as now, was to mentor libertarian scholars, nurture the next generation of thought leaders, and "further the science of a free society."

When Harper died suddenly of a heart attack in 1973, Charles stepped in briefly to helm the organization, vowing to continue Harper's work and keep alive his vision. At the funeral, he tenderly eulogized his friend. "He taught us about liberty which was, in his words, 'the absence of coercion of a human being by any other human being.' ... 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."

Just as Charles focused intently, methodically, obsessively on growth at Koch Industries, he had similarly grand aspirations for libertarianism. He often grappled with the question of how to expand libertarianism beyond its ragtag confines. By its very nature, this philosophy had attracted a combustible mix of free thinkers, from sober-minded academics to black-flag-waving anarchists, and from buttoned-down executives to survivalists, sci-fi geeks, and eccentrics seeking to establish a floating libertarian utopia on the high seas.

Charles sought a coherent strategy, not the ad hoc approach that had characterized the movement up until then. There was plenty of informal parlor talk about how to elevate libertarianism to a genuine mass movement, but it was Murray Rothbard, another student of Mises's, who wrote the manifesto that distilled the movement's guiding principles and showed a path forward to greater acceptance. Part of the debate among libertarian thinkers centered on whether to advance the cause through an intellectual or an activist approach. To Rothbard, the Bronx-born son of Eastern European Jews who had received his Ph.D. in economics from Columbia University, the answer was both. Rothbard, known for his fiery, stem-winding diatribes against "statism," captured Charles's imagination.

During the winter of 1976, Charles invited the Brillo-haired and bespectacled economist, who was then forty-nine, to spend the weekend strategizing at a ski lodge in Vail, one of the

businessman's favorite vacation destinations. A fire crackled in a stone fireplace as the two men bantered for hours about how to coalesce their fellow believers and attract new recruits to their freedom-fighting ranks. Prior to this retreat, Charles and Rothbard had outlined a strategy modeled closely on the John Birch Society. (For all its flaws, Welch's group had managed to grow into a bona fide movement with an estimated 100,000 members at its peak.)

Their plan called for the formation of a Libertarian Society, replete with Bircheresque bookstores around the country. As they strategized in Vail, Charles and Rothbard came up with a handful of candidates to lead this new organization. Edward Crane III, a San Francisco-based financial advisor who, at thirty, had become the national chairman of the fledgling Libertarian Party, topped the list. Crane, the son of a Republican doctor, grew up in the suburbs of Los Angeles and he enjoyed going against the grain. Attending Berkeley during the turbulent 1960s, Crane ran for student government on a pledge to abolish it. During Barry Goldwater's 1964 presidential campaign, he stumped for the conservative Arizona senator as precinct captain in this predominately left-wing enclave. Disillusioned by the Goldwater campaign, Crane drifted toward libertarianism. He was tough and opinionated, a contrarian who spoke his mind freely—even, and perhaps especially, to powerful business titans.

In May 1976, Rothbard approached Crane, who was then running the campaign of Libertarian presidential candidate Roger MacBride, to gauge his interest in heading the Libertarian Society. "Now, we have quite a few scholars in the libertarian movement (although not as much, of course, as we should have), and we have a large, amorphous, and often nutty rank-and-file; but we have no one with organizing ability," Rothbard wrote to Crane. "This makes you, Ed, a unique and extremely scarce resource; not only are you the best person to head a Libertarian Society effort, but you are also the *only* one, and I know that Charles feels the same way."

Crane and Charles had met during the 1976 campaign, when Charles threw a fund-raiser for MacBride at his midcentury modern home in Wichita, with its floor-to-ceiling windows and recessed living room. Crane's candidate had become a libertarian hero four years earlier, when, as a Republican Electoral College elector in Virginia, MacBride refused to give his vote to Richard Nixon and Spiro Agnew, and instead cast a symbolic ballot for the Libertarian Party's nominees. MacBride was also the "adopted grandson" of libertarian icon Rose Wilder Lane—namesake of the Freedom School's lodge; upon her death, he became the literary heir to her mother's *Little House* series, and as such was the cocreator of the long-running NBC television show.

Chatting with Charles, Crane was immediately struck by the depth of the businessman's libertarian fervor. "He was more hardcore than I was," Crane recalled. Crane's commitment to the cause and competence similarly impressed Charles.

Following the election, where MacBride received a little less than 173,000 votes, a disheartened Crane considered leaving the Libertarian Party altogether and returning to his native California and a comfortable finance job. But Charles urged him to reconsider. The movement couldn't afford to lose talent of Crane's caliber. Its biggest weakness, as Charles saw it, was a lack of professionalism. He had tired of throwing money away on flaky activists and scholars who failed to deliver. To Charles, libertarianism wasn't just theoretical. He wanted action. Wholesale political and social change. And he wanted to see it within his lifetime.

"What would it take to keep you in the movement?" Charles probed.

Crane considered the question. While running MacBride's campaign, he had grown acquainted with the Beltway public policy shops such as Brookings and the American Enterprise Institute and marveled at their influence. Brookings, for its part, had managed to get a powerful new government division created in the

form of the Congressional Budget Office—then have one of its scholars appointed as its director.

Crane had daydreamed of a libertarian answer to the liberal and conservative organizations that dominated the think tank world, a goal long advocated and heartily endorsed by economist Murray Rothbard.

"It would be nice to have a libertarian think tank," Crane replied.

The Cato Institute opened in early 1977, with Crane as its leader, Rothbard its intellectual muse and top scholar, and Charles the organization's wallet. The think tank, at Rothbard's suggestion, took its name from a series of eighteenth-century pseudonymous essays, signed Cato, that advocated freedom from government tyranny. They established the institute, at Charles's insistence, under the laws of Kansas, which allowed nonprofit entities to issue stock. Unlike a typical corporation, these shares held no real monetary value, but they did offer a mechanism of control. Cato's shareholders (among them, Charles, Crane, and Rothbard) had the ability to appoint the think tank's board members, and in this way they could ensure that the think tank remained tethered to its founding mission.

Cato's plush, wainscoted offices occupied half of the second floor of a three-story, redbrick building at 1700 Montgomery Street, at the foot of San Francisco's Telegraph Hill. Portraits of what the Catoites called the "dead libertarians"—John Stuart Mill, Lysander Spooner, Benjamin R. Tucker, H. L. Mencken—lined the walls. Cato had headquartered in San Francisco because, first and foremost, this was where Crane wanted to live. But there was also something apropos about establishing the libertarian beachhead far from the den of corruption and compromise that was Washington.

A converted warehouse down the street, where Rachmaninoff

concertos boomed from a stereo and scruffy libertarian activists huddled over secondhand desks, housed the distinctly shabbier offices of two other Koch-funded operations, along with the California headquarters of the Libertarian Party: Modeled on Students for a Democratic Society, the newly established Students for a Libertarian Society had ambitions of fomenting a similar movement of campus activism around libertarian issues. *Libertarian Review*, a magazine that Charles had purchased in early 1977, also occupied the warehouse space.

Charles had placed the magazine under the editorship of Roy Childs, a keen libertarian thinker and erudite essayist (and the source of the earsplitting Rachmaninoff). Childs had first struck up a correspondence with Charles's philanthropic gatekeeper George Pearson in 1969, when he was a twenty-year-old college student at S.U.N.Y. Buffalo. He later managed to convince Charles to buy *Libertarian Review* and install him as editor, even though Cato had already started publishing a magazine of its own called *Inquiry*. While *Inquiry's* target audience was libertarian allies on the Left, who shared similar views on issues such as civil liberties and foreign policy, Childs pitched a libertarian answer to *National Review*. "Roy's message to Charles," recalled Jeff Riggenbach, *Libertarian Review's* executive editor in the late 1970s and early 1980s, "was that it takes a while to do this, but in *National Review* we see the benefits of doing it. If you stick with it and build the magazine gradually it will over time make a difference in the culture, it will over time turn people's minds around."

Almost overnight, San Francisco became a hub of libertarian organizing, and the movement's orbit now revolved largely around Charles Koch's seemingly bottomless bank account. Charles closely monitored the operations he funded to ensure his investments would eventually yield the dividends he sought in transforming the political culture. "His rationale was that if he was funding an organization, he had the right to see that it was

effective," said Richard Wilcke, who in the late 1970s and early 1980s ran the Koch-created free-market advocacy group Council for a Competitive Economy. "It was not the intention to create sinecures for shiftless ideologues." Charles jetted to San Francisco regularly to tour the offices of the outfits he was underwriting and to strategize with department heads. When he was in Wichita, he remained in daily contact with Crane.

"His whole idea was that these institutions would become self-sustaining," said Justin Raimondo, who worked for *Libertarian Review* and Students for a Libertarian Society. "They had to start making some money back. He was giving them seed money. He was pretty penurious, given the scale of his wealth, which of course was huge. He was watching pennies." (In one case, Charles grew angry with Crane for approving a \$300-per-month pay increase for Childs, which he viewed as exorbitant.)

Charles's libertarian comrades learned quickly that he was not a typical corporate fat cat. During the first board meeting of the Cato Institute, the participants broke for lunch at the Rusty Scupper, an upscale seafood restaurant nearby. Notably absent was Charles, who was spotted at the greasy spoon down the street, where Cato's young, thrifty staffers frequently congregated for lunch. Charles sat alone at a corner table with his burger, Coke, and fries. He was lost in a copy of Hayek's *The Constitution of Liberty*.

Charles's everyman persona surprised fellow libertarians in different ways as well. During a small conference on Austrian economics held in Scotland, Charles, the economist Walter Block, and their wives were chatting on a street corner when a surly drunk stumbled up. *Sidewalks are for walking, not standing*, he growled. A stunned Block watched as Charles calmly and wordlessly stepped out in front of the trio and raised his fists in the boxing stance.

But it wasn't just Charles's down-to-earth demeanor that intrigued libertarians; it was also the fact that one of America's

wealthiest men shared their radical views. "I was used to the idea that anyone who ran a big business and had a lot of money was a Republican," Riggenbach said. "And of course, in recent years, Charles has looked more and more like that profile. Back then he seemed to me to be just as radical as Murray Rothbard or Ed Crane. He seemed to me to be an anarchist."

"He was contemptuous of government on every level," Riggenbach continued. "It was not just on economic issues. He was not disposed to look on the people who later formed the Tea Party as his allies. He was instead disposed to look on them as people who were too terrified of the results of their thinking to pursue their ideas where they naturally led"—that is, to a worldview closer to anarchism than conservatism.

Charles certainly talked the talk. Asked during a gathering of Wichita Rotarians in the late 1970s to describe his view of government, he responded, "It is to serve as a night watchman, to protect individuals and property from outside threat, including fraud. That is the maximum." When Childs put together an issue of *Libertarian Review* devoted to strategy in August 1978 ("Toward the Second American Revolution," was splashed on the cover), Charles contributed an impassioned, four-page essay that served as a libertarian call to arms to the business community, which he chided for hypocrisy. "How discrediting it is for us to request welfare for ourselves while attacking welfare for the poor," he wrote. "Our critics rightfully claim that we want socialism only for the rich."

He decried corporate leaders who preached "freedom in voluntary economic activities," but simultaneously called for "the full force of the law against voluntary sexual or other personal activities." And he blasted the business community for buying into "the fallacious concept that the corporation has a broad 'social responsibility' beyond its duty to its shareholders."

He urged businessmen to resist the temptation to seek change

via the Republican Party. "If this is our only hope then we are doomed," he wrote. "The Republican Party is the party of 'business' in the *worse* [sic] sense—in the sense of business accommodation and partnership with government." There was no way to "destroy the prevalent statist paradigm" through a political party that had helped to perpetuate it.

Just as in the early 1960s, when the John Birch Society's Robert Welch and his conspiracy-crazed followers caused hand-wringing among influential conservatives, the radical philosophy espoused by Charles, Murray Rothbard, and their fellow libertarians provoked similar unease on the Right. Once again, William Buckley's *National Review* took it upon itself to protect the virtue of conservatism.

In 1979, the year after Charles's jeremiad against establishment conservatives, the magazine took aim at the movement and its main benefactor in a pair of articles devoted to eviscerating libertarianism.

"Who is against liberty? Or prosperity, which, we are told, comes as a bonus with it?" wrote social critic Ernest Van Den Haag in the magazine's cover story. "But how to get, and keep, both? The libertarian answer is beguilingly simple: The government is the problem, not the solution. Do away with it, and we will all be free and prosperous. Society has been wrong for the last few thousand years in making laws and demanding obedience to them. Murray Rothbard will put it right."

"The character of the libertarian movement," Van Den Haag concluded, "is now such that all true lovers of liberty must oppose it."

A separate article focused on Cato, which the magazine derided for falling in with the New Left foreign policy milieu, and it took a swipe at the sanity of the fellow bankrolling the whole mad endeavor, describing Charles as "a man whose wealth and devotion to privacy are straight out of the Howard Hughes legend."

By now Charles had begun to come under attack not just from outside the libertarian movement, but from within it as well. One of his most vocal critics was a mustachioed gadfly named Samuel Konkin III, who dressed in black in solidarity with his anarchist forefathers. A Dungeons & Dragons enthusiast, he embodied the movement's sci-fi-geek side—the kind of eccentric activist getting in the way of Charles's efforts to bring respectability to libertarianism.

Konkin had watched in horror as his compatriots slavishly cozied up to the Wichita businessman in pursuit of funding. To Konkin, these Koch supplicants risked sullyng the movement as the tool of an oil baron. He saw glaring hypocrisy in a movement of individualists, whose primary goals included rolling back a culture of government dependency and control, subjugating themselves to the dependency and control of a business mogul. He coined the term “Kochtopus” to describe the many-tentacled operation funded by Charles, whom he accused of trying to “buy the major Libertarian institutions—not just the Party—and run the movement as other plutocrats run all the other political parties in capitalist states.”

The libertarian denizens of Montgomery Street paid little heed to such crankery, which they attributed mostly to the jealousy of those who had not managed to ingratiate themselves with Charles. This crowd of activists, scholars, and journalists considered themselves proud appendages of the “Kochtopus” and even adopted Konkin's derisive term as their own.

By the late 1970s, the movement—once small enough to squeeze into the living room of Murray Rothbard's Upper West Side apartment—seemed finally on the march. “It was an exciting time, indeed,” remembered the economist Dominick Armentano. “There was plenty of debate about ideas and policy to be sure but most of the concern was over strategy. How aggressively do you push ideas, especially radical ones like libertarianism? Which alliances advance your cause and which ones should be avoided?”

Gaining a firmer toehold in politics seemed the next logical step for Charles and his allies. And there was some evidence that libertarian ideas were resounding with the electorate. In California's 1978 gubernatorial race, which pitted Democratic incumbent Jerry “Moonbeam” Brown against the state's Republican attorney general, a libertarian candidate managed to capture almost 400,000 votes, more than 5 percent of the total. Thanks to his impressive showing, Ed Clark, a wonkish and somewhat stiff oil industry attorney, became an early favorite as the Libertarian Party's presidential candidate in 1980. Charles and Cato's Ed Crane—who now ran both the think tank and the Libertarian Party—saw the upcoming election as an opportunity to showcase libertarianism to a national audience on a scale that hadn't been seen before.

Ahead of the party's 1979 nominating convention, Charles was asked to join a possible Ed Clark ticket as the Libertarian Party's vice presidential nominee. With a company to run—and a deep aversion to publicity—Charles declined, but he cajoled Bill and David, both thirty-nine and working for Koch Industries, to consider running. Neither had gotten very involved with libertarianism, but because of Charles's passion for the movement, they had both donated to the causes he supported.

There was an ulterior motive to running a Koch. A loophole in the Federal Election Campaign Act allowed candidates to donate unlimited funds to their campaigns, circumventing individual contribution limits (which libertarians didn't believe in to begin with). Staked by one of the Koch brothers, the Libertarian Party could mount a true national campaign.

Bill considered the proposition, but ultimately begged off. David, however, went for the idea, inspired by the 1976 presidential campaign of Roger MacBride. “Here was a great guy, advocating all the things I believed in,” David said in 1980. “He wanted less government and taxes and was talking about repealing all these victimless-crime laws that had accumulated on the books. I

have friends who smoke pot. I know many homosexuals. It's ridiculous to treat them as criminals—and here was someone running for president, saying just that.”

In mid-August 1979, a few weeks before the party's nominating convention, David circulated a letter to the more than 500 Libertarian Party delegates announcing his candidacy and openly acknowledging it would allow him to pour money (he pledged “several hundred thousand dollars” to start) into the campaign.

David's candidacy caused some grumbling in the movement among libertarians who, though grateful for the Kochs' support, feared being viewed as a subsidiary of Koch Industries. Some also expressed concern about the optics of a businessman effectively buying the Libertarian Party's nomination. “I was disturbed by it,” said Robert Poole, then the editor of the libertarian *Reason* magazine. “David Koch has not been active in the party. But everyone made the calculations.... He was a Libertarian, he agreed with us, he was offering money we couldn't otherwise get.”

In early September 1979, the Libertarian Party's nominating convention kicked off in Los Angeles, as a thick shroud of smog enveloped the city. The Bonaventure Hotel, a futuristic-looking trio of cylindrical skyscrapers in downtown L.A., teemed with hundreds of libertarians from every strain of the eclectic movement: Miscians and Hayekians, anarcho-capitalists, shaggy-haired peaceniks, and black-clad anarchists.

It wasn't Madison Square Garden, where the following year Ted Kennedy would deliver a Camelot-worthy concession speech, or Detroit's Joe Louis Arena, where at the last minute Ronald Reagan selected George H. W. Bush as his running mate after entertaining a “co-presidency” with Gerald Ford, but the libertarian convention was momentous in its own way. Donning patriotic skimmer hats and waving CLARK FOR PRESIDENT signs, here were more

than two thousand people committed to eviscerating the political status quo and, in some cases, the government itself.

On September 9, Roy Childs, the heavyset and bearded editor of Charles's *Libertarian Review*, looked out on the audience from the dais in the ballroom. He was among a trio of speakers who would be endorsing David's candidacy. Unifying libertarians was like herding cats, and the lingering reservations about David had to be confronted head on.

“We are no longer at the stage where the movement can be ‘bought.’ And certainly Ed Clark can't be bought,” Childs told the crowd. “The government says we can't spend our own money defending our own rights. Well, I say nuts to that, and so does David Koch. Let's get to work!”

Three other VP candidates were in contention, but David won the balloting in a landslide. It didn't hurt his chances that David had made it known that he had decided to up the ante on his contribution pledge to a half-million dollars and was leaving open the possibility that he might chip in even more.

Hoots and applause echoed in the ballroom as David nervously strolled in to claim the nomination. He broke the ice with a joke. “Delegates and visitors, my speech today will be like my candidacy—short but very valuable.”

“As I said in my letter to you announcing my candidacy,” David went on, over peals of laughter, “you have done an incredibly good job in bringing the Libertarian Party from obscurity to the point where today we represent the best hope for human freedom since the American Revolution.... I feel particularly as a businessman, who's run a successful company, who's had to deal with the harassment and the ridiculous interference of government in the affairs of my business, that I can be particularly effective at communicating the libertarian ideas and concepts to businessmen.

“With Ed Clark as our standard-bearer,” he concluded, “the

two-party system is in grave danger." Smiling broadly, David raised his right fist aloft and locked hands with his running mate, who had joined him on the stage.

Winning wasn't the point. No one was that naïve. The real goal of the endeavor was taking on the entrenched political system and using the presidential campaign, and accompanying media attention, to disseminate the libertarian message. "Before you can teach, you have to get people's attention," David told a group of Texas Libertarian Party members as the campaign got under way. "The ideas are so persuasive that once people hear about them they will be willing to accept them."

When it came to selling the libertarian brand, the Clark-Koch campaign, and its chief architect, Cato's Ed Crane, understood that Americans might have difficulty wrapping their minds around their radical ideas in undiluted form. This was an ongoing and thorny debate within the movement—how to stick to their core principles and expand their base, while neither selling out libertarianism nor scaring the American electorate.

Crane himself had declared in 1974: "The real threat to the [Libertarian Party] lies in the temptation to make the big time through compromise of our principles to gain votes immediately. The fact is that the only hope we have for continued success is to stick to our principles and never compromise."

During a 1978 *Reason* magazine roundtable, Charles expressed a similar view: "Our greatest strength is that our philosophy is a consistent world view and will appeal to the brightest, most enthusiastic, most capable people, particularly young people." He worried that watering down their "radical philosophy" would "destroy the movement."

As the 1980 campaign wore on, it began to seem to libertarian purists that the Clark-Koch campaign had taken precisely the path that Crane and Charles Koch had once warned against. Ed Clark,

for instance, had stopped short of calling for the wholesale abolition of the income tax. And he was flirting dangerously with the Left on the subject of opposing nuclear power.

Halfway through the campaign, David Nolan, one of the Libertarian Party's founders, sent a terse missive to Clark begging for a course correction. Though just thirty-six, the mustachioed activist was one of the movement's elder statesmen, driven to cofound the party in 1971 by outrage over Richard Nixon's imposition of wage and price controls and abandonment of the gold standard. Before the nominating convention convened, Clark met with Nolan and other influential party leaders to lock down their support; the candidate had assured them of the ideological purity of his platform—and his running mate. Nolan had therefore not opposed David's vice presidential nomination, though he and other prominent libertarians had doubts about the businessman's libertarian bona fides. Now, Nolan fumed, the Clark-Koch faction was "pushing the party into a stance which is radically different from the traditional libertarian posture on certain key issues, and which is dangerously out of touch with the temper of the times."

Rothbard, increasingly agitated by the direction Charles Koch and Ed Crane were taking his beloved movement, had come to a similar conclusion. He sensed "a paradigm shift in all parts of the 'Kochtopus,'" he told a libertarian colleague. "Koch," he said, "explicitly wants to run the movement like a corporation, where orders are given, dissidents are fired, etc. Crane ditto."

As Election Day neared, Rothbard's private denunciations about the movement's ideological drift exploded into open hostility. He reached his breaking point in the final weeks of the election. Clark had landed a primetime appearance on ABC's *Nightline*, a key opportunity to expose millions of TV viewers to libertarianism. Yet instead of articulating their core beliefs, Clark had described their philosophy as "low-tax liberalism" and said "we want to get

back immediately to the kind of government that President Kennedy had back in the early 1960s." *Low-tax liberalism? Kennedy?* Rothbard and his loyal followers boiled over.

On Election Day, the nation decisively swept Ronald Reagan into power and the Clark-Koch campaign claimed a little under 1 million votes, about 1 percent of the total cast. Thanks largely to repeated cash infusions from David, who ended up larding his campaign coffers with a little more than \$2 million, the Libertarian Party made it on the ballot in all fifty states and the District of Columbia. The 1980 campaign would later be viewed as a high water mark for the Libertarian Party, which only during the 2012 election surpassed the Clark-Koch ticket's vote tally (though not its share of the popular vote) in a presidential campaign. David reflected on the campaign as a personal triumph, listing his vice presidential candidacy years later under "proudest achievement" on an MIT alumni questionnaire.

But the outcome at the time was viewed as a disappointment, since the campaign had early on estimated that the Libertarian Party ticket would garner 4 or 5 percent of the electorate, on par with Ed Clark's showing in the California gubernatorial race. The campaign's lackluster performance frustrated Charles, according to Clark. "He was not awfully pleased," he recalled. "I think he thought it could have been better in the number of votes and building the movement."

Rothbard penned a scathing postmortem after the election in a newsletter he edited called *The Libertarian Forum*. "The Clark/Koch campaign was a fourfold disaster, on the following counts: betrayal of principle; failure to educate or build cadre; fiscal irresponsibility; and lack of votes." Far from taking libertarianism to new heights, the 1980 election reduced it to new lows as infighting and factional feuds engulfed the movement. SMASH THE CRANE MACHINE buttons now adorned the jackets of some Libertarian Party activists.

Adding insult to injury, the ringleader of the revolt was Rothbard, for whom Charles had built a comfortable academic perch and whose strategy he had tried to put into play. Tensions between Rothbard and Ed Crane—or as the economist preferred, Boss Crane—had begun to flare by the spring of 1979, and relations between the men had rapidly devolved from there. Even so, in early March 1981, Rothbard was floored to reach into his mailbox and retrieve a letter from Crane requesting that he relinquish his shares in the Cato Institute. Citing Rothbard's "deep-seated" antagonism, Crane wrote that "we believe it would be difficult, if not impossible, for you to objectively evaluate ongoing and future Cato projects as a Board member."

A few weeks later, when Cato held its quarterly board meeting, Rothbard, still seething, entered the think tank's conference room with a lawyer in tow. When the meeting began, Rothbard's attorney addressed the group, arguing for his client's right to continue serving on the board.

Charles coolly explained that Cato's shareholders—meaning himself and Crane—had convened the previous night and dissolved the board, re-forming it minus Rothbard. The irascible economist, his fury building, objected. He was, after all, a Cato shareholder, yet had not been informed of the session.

Charles told Rothbard that he was, in fact, no longer a Cato shareholder either. His shares had been canceled. "This action is illegal," Rothbard sputtered as he and his lawyer stormed out. "Therefore any further decisions taken at this meeting are illegal!"

Following the 1980 election and amid the intraparty feuding, other big changes were under way within the Kochtopus. In his ongoing mission to create social change, Charles rethought his strategy, shutting down some of his libertarian projects. He cut off funding to Students for a Libertarian Society, which had angered its benefactor with the publication of a monograph that glorified San Francisco's White Night riots—a series of violent uprisings

in reaction to the lenient sentence given to Dan White, the San Francisco Board of Supervisors member who assassinated Mayor George Moscone and fellow supervisor Harvey Milk. Titled "In Praise of Outlaws: Rebuilding Gay Liberation," its cover featured a row of burning police cars—precisely the type of radical imagery that relegated libertarianism to the fringe. Hemorrhaging money and making little inroads in movement building, *Libertarian Review* was folded into *Inquiry*, which itself ceased publication after a couple of years.

By late 1981, as if fleeing the upheaval on Montgomery Street, Cato uprooted from San Francisco to a historic town house on Capitol Hill. Rothbard, who had taken a position with the newly founded Ludwig von Mises Institute, saw the move as a sign that he'd been right all along, that Ed Crane and Charles Koch were willing to sell out libertarianism if it brought them closer to mainstream acceptance and political influence. "The massive shift of the Kochtopus to D.C. symbolized and physically embodied the shift of the Kochtopusian Line toward the State and toward Respectability," wrote Rothbard, the embers of his grudge still smoldering.

Even as the libertarian movement imploded, devolving into internecine battles and turning some of Charles's onetime allies into lifelong enemies, conflict brewed on another front, this one much closer to home.

CHAPTER SEVEN

The Divorce

On Christmas Day 1979, the four Koch brothers gathered in the wood-paneled dining room of their childhood home, where their mother had set the long table with lace placemats, gold-rimmed crystal wineglasses, and an arrangement of white poinsettias. Also at the table were Charles's wife, Liz, and Joan Granlund, the ex-model who doubled as Bill's secretary and live-in girlfriend.

Mary was hosting Christmas dinner, as was the family custom, and the Koch patriarch was never far from mind as he peered down from an oil painting on a nearby wall. Over the course of the evening, the festive mood evaporated thanks to Bill, who chose the occasion to unload years of emotional baggage.

Bill was Mary's *enfant terrible*. As long as anyone could remember, he'd been excitable and tempestuous. He never outgrew the feeling of being slighted by Charles. Since joining the firm in 1974, he'd felt like the third and lesser wheel in the brotherly triumvirate that controlled Koch Industries. He brooded over his role within the company, as well as over how Mary, who had just turned seventy-two, planned to distribute her estate among her sons. As in his boyhood, Bill's inner swirl of emotions whipped into a maelstrom with little warning. This storm had been building for some time.

Seated across from his mother, Bill vented a series of grievances.

Growing up, he had perceived Mary as cool and distant, more interested in society gatherings than child rearing. He now blamed