

**Stealth: The History of Charles Koch's Political Activities**

**Part One**

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The following is an excerpt of Clayton Coppin's report on Charles Koch's political activities, as commissioned in 2003 by his brother William ("Bill") Koch during a family dispute. The following is published with permission of the author.

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As mixed-up as politics was in post Watergate 1976 any serious assessment of the Libertarian Party would identify it as a minor third party far out of the mainstream of the American political tradition. It would take Charles Koch and Ed Crane five years, two elections and several million dollars to come to that realization.

Charles Koch's involvement was not that of youthful indiscretion or youthful radicalism. He was in his mid forties. He was driven by some deeper urge to smash the one thing left in the world that could discipline him: the government. If Charles Koch had merely wanted to support free markets, attack government regulation, or gain political influence to benefit his businesses he could have supported other well-established organizations, such as the American Enterprise Institute, or Heritage Foundation.

If Charles Koch was interested in promoting the ideas and theories of free markets the Mont Pelerin Society, the premier advocate of free markets was always in need of financial assistance. He chose instead to support a fringe anarcho-capitalism group that wanted to abolish government.

Several other papers presented at this strategy conference are significant because they provided the basis for the libertarian activities that Charles Koch would fund in an effort to bring about the libertarian revolution. The papers

outline a series of schemes for enhancing the libertarian movement that could be accomplished with Koch's money.

George Pearson, Charles Koch's personal aide and member of the Wichita chapter of the John Birch Society, read a paper titled, "Expenditures on Scholarship Aimed At Bringing About Social Change." This paper is a compendium of Charles Koch's thinking about how he could invest in and control the libertarian movement.

The paper begins by assuming that to advance libertarian thought it is necessary to have a group of advocates in major universities. Pearson considers a number of ways that funds can be used in academia to advance the libertarian ideology, but all of them contain problems of control. Pearson points out that when a chair is endowed the donor gives the endowment to the institution and has no control beyond the appointment of the chair's first occupant. After that, the institution is in control of the endowment.<sup>61</sup> The lack of control of future endowments is a significant drawback from Pearson's perspective. Pearson explores a number of other possibilities: partial endowments, annuities, and independent support. Each has its shortcomings. Some are ineffectual; others provide the donor with no control.

Pearson suggested that programs such as the Foundation for Economic and Education at UCLA offer a better option for the donor. Pearson describes how the Foundation receives funds from the donor and then uses these funds to make research grants and other awards to faculty members in the economics department at UCLA. This procedure allows the department to offer a more attractive financial package and attract better scholars. From the donor's perspective, says Pearson, "this in turn allows the foundation to influence the hiring decisions of the department... It has additional advantages in that it can be controlled to supplement salary without any displacement of department funds allowing for the leveraging of state funds while still giving the donor some control."<sup>62</sup>

Pearson is critical of Princeton's Alumni Committee and Cornell's Committee to Restore Better Balance in the Curriculum which were organized to counter the socialism taught in the classroom. Both, according to Pearson, announced their intentions publicly to the university community, which resulted in a reaction from the established faculty and that reaction destroyed any effectiveness the committees may have had.<sup>63</sup>

Pearson identifies Henry Manne's Center for the Study of Law and Economics, then located at the University of Miami, as a successful program. It

was so successful that several law schools wanted Manne and his program. This allowed Manne to set his own conditions. His success in getting funds gave him clout with the University's administration.<sup>64</sup> Pearson attributes Manne's success to aggressive entrepreneurship.

Pearson admits that many scholars are more concerned with enhancing their scholarly reputation than they are in working for an identified libertarian organization. An organization associated with a university that can tap its resources and reputation but still be primarily answerable to the donor is the best option. He cites the Institute for Humane Studies as such an organization; it was fully controlled by Charles Koch, was loosely associated with Stanford University, had an ambiguous name, and did not clearly state its libertarian goals.

George Pearson spoke as a surrogate for Charles Koch in delivering this paper. Charles wanted to fund only individuals and organizations he could control. It is clear from Pearson's comments that Charles Koch simply did not want to give up his money if he didn't have control.

Pearson shows Charles Koch's awareness that visible control and a forthright agenda created formidable opposition. Pearson concluded that to keep control without creating such opposition it would be necessary to use

ambiguous and misleading names, obscure the true agenda, and conceal the means of control. This is the method that Charles Koch would soon practice in his charitable giving and later in his political actions.

Other papers delivered at the libertarian strategy conference reviewed historical movements that were effective at causing social change. Historian Leonard Loggia's paper, "National Socialist Political Strategy: Social Change in a Modern Industrial Society with an Authoritarian Tradition," was an examination of the Nazi success in capturing the German state. Liggio was particularly interested in the Nazis' use of youth movements as an essential part of their overall movement.<sup>65</sup>

Based on the Nazi experience Liggio makes the case for a libertarian youth movement concentrated in the universities. Building a youth movement required a concentrated organizational effort that would give a group identity to its members. It also required a series of publications directed at the issues of concern to students. A libertarian student movement in the middle of the 1970s would have to be anti-war, anti-imperialistic, pro-legalization of drugs, and anti-military expenditures. The major shortcomings of this approach, not articulated by Liggio, was the anti-capitalism and anti-free market attitudes dominant among university students.

Walter Grinder and John Hagen III presented a short paper that argued there should be three separate but coordinated libertarian organizations. The Center for Libertarian Studies at the intellectual center of the libertarian movement would provide ideological pure theory, the systematic application of theory to “real-world” problems, dissemination of educational material, and training and nurturing an “ideologically pure cadre.” The Libertarian Society would be modeled on the John Birch Society with strict centralized control over a series of local chapters. It would aim at recruiting businessmen who were seriously concerned over increasing government encroachment on economic freedom and discouraged by the ineptitude of conservatives. The Center for Libertarian Studies could provide an ideologically pure cadre to staff the Libertarian Society.<sup>66</sup> The third organization would be the Libertarian Party.

According to Hagen and Grinder the Libertarian Party would engage in electoral politics and disseminate libertarian material to a broad segment of American public. They warned that the LP, because of its involvement in electoral politics, might compromise its ideological purity in the desire to win; therefore, it was essential that an ideologically pure cadre be established in the Libertarian Party to control any deviationist tendencies that might arise. Currently, the authors concluded, the leadership of the Libertarian Party’s state organizations was plagued with large groupings of “crazies and deviationists.”



By having the ideologically pure Libertarian society involved in the state organizations the “obstructionists” could be weakened and the damage minimized.<sup>67</sup>

Hagel and Grinder’s paper placed emphasis on the importance of intellectuals. They believed that social change begins with intellectuals and drips down to the rest of society. Such a formula would place Grinder and the Center for Libertarian Studies at the forefront of the libertarian movement. Shortly after this meeting, Koch would cut funding to the Center for Libertarian Studies. The role envisioned for the organization of training a libertarian cadre was taken up by the Cato Institute. Grinder was sent off with a fellowship to the University of Ireland at Cork and a job with the Institute of Humane Studies when he returned, but not all his ideas were lost because the Cato Institute filled many of the roles Grinder envisioned for the Center for Libertarian Studies.

Murray Rothbard’s paper for the conference was “The Zionist Conquest of American Opinion.” He examines how the Zionist movements managed to go from weak support to having the full support of nearly all factions of American opinion. He did not find much of this relevant to the libertarian movement, but a lesson could be learned from the small group of Zionists who were successful because they always kept the goal foremost in their minds.<sup>68</sup>

Historian Joseph R. Stromberg contributed a paper, “Fabianism and Social Change: The Perpetuity of Gradualism”<sup>69</sup> which examined the Fabian Society and its influence on British politics. The Fabians, argued Stromberg, used a strategy of “boring from within,” which meant, influencing, manipulating, infiltrating and capturing existing state organizations. This was not a revolutionary strategy; it simply involved educating existing parties and supporting piecemeal reforms. Stromberg praised the literary talents of the Fabians, particularly their well-written and well-argued propaganda pieces. The Fabians, according to Stromberg, ended up being “the chief think tank for the Labour Party.”<sup>70</sup> He concluded that the Fabians had only limited success and they were never part of the actual power structure of the Labour Party or of the government. They ended up serving the purpose of others and only had, “minor successes in the service of a watered-down ideal.”<sup>71</sup> Stromberg concluded that libertarianism had little to learn from the Fabians, although the movement fascinated the American Right because they grossly overestimated the Fabian successes.<sup>72</sup>

If libertarians worked within the system and confined their goals to piecemeal reforms, it would amount to a near abandonment of the libertarian vision. Devotion to the politics of the possible would quickly undermine the libertarian goal of a free, universal society, asserted Stromberg.

He continued by saying, “Libertarians have to create a pure cadre and not water down their goals.” Stromberg’s argument became more strident and vague when arguing that libertarian “propaganda and research guided by sound ideology can avoid the discrediting counter-revolutionary tactics of practical Randianism expressed as pro-imperialism defense of Nixon, and the emergence of Mighty Greenspan, and practical Chicagoism. Fabian tactics, unless they are combined with correct libertarian ideology, cadre development, mass education, and activism will lead nowhere.” Stromberg predicted that libertarians following Fabian strategy in a few decades would find themselves “stuck inside of Mobile with much worse than the Memphis blues again.”<sup>73</sup>

The most important paper presented at the conference for future libertarian activities was the paper given by Charles Koch on an organization that he knew well, the John Birch Society.<sup>74</sup> He began by acknowledging that the John Birch Society reflected all the weaknesses and strengths of its founder Robert Welch. The John Birch Society, JBS, was sharply attacked from the right and left, but nevertheless, had 90,000 members, 240 employees, and annual expenditures of about \$7,000,000 a year.

Koch attributed this success in gaining followers and funding to Robert Welch’s organizational ability and tireless efforts at fundraising and promoting

the cause. Koch argued, JBS was hierarchical and authoritarian at all levels, because Welch feared unsympathetic infiltrators would attempt to take over or weaken his organization.<sup>75</sup> Welch had total control of the organization; the Council was relegated to an advisory role, although it was hand picked by Welch. Welch's poor management was responsible for keeping the JBS on the margin and for the poor return on the money it spent. He argues, Welch's personality, inadequate products and the inability to attract youth and natural leaders limited the John Birch Society influence.

Welch and JBS were widely attacked for their extreme right-wing positions and conspiracy theories that saw enemies everywhere. In a book called *The Politician* Welch attacked the popular war hero President Dwight Eisenhower, accusing him of either being "a mere stooge" for communism or "consciously serving the communist conspiracy for all his adult life."<sup>76</sup>

When JBS council members criticized Welch and suggested that JBS needed a true executive committee and a business manager he ignored their advice. Several council members resigned citing Welch's reckless statements and autocratic rule. Welch responded by adding several council members to the board of directors of the John Birch Society, Inc. Charles Koch pointed out, that

since Welch had controlling stock interest in John Birch Inc. any sharing of control with a board of directors was nominal.<sup>77</sup>

Koch acknowledged the JBS's successful fundraising, membership, work accomplished, and the sheer volume of literature produced, but, he also argued it was impossible to determine if all of this effort actually accomplished anything. Welch was the main problem, but the heavy emphasis on conspiracy attracted a large number of unattractive members with little positive ideology. The publications, while numerous, were, "journalistically written without adequate scholarship, making it difficult to attract academics and students."

Koch argued that, "with the organization structured so that there are no effective checks on Welch," he was able to say and do whatever he pleased no matter what the consequences. All of this led to one of the Society's biggest failures, its inability to influence people in the "communication media and arts." This was probably due, argues Koch, "to the unacceptability to them of the Society's ideology, combined with the Society's hostility to them as probable members of the Conspiracy, and Welch's and other Society members' personalities."<sup>78</sup>

Koch then produced a list of lessons learned from the John Birch Society:<sup>79</sup>

- Natural leaders, whether businessmen, professional or academic, are necessary to attract influential people.

- Do not structure an organization so that one person has absolute control.

Everyone needs checks to keep him on the correct path especially with the feeling of power or infallibility that people running large organizations tend to get.

- The leadership needs entrepreneurial and managerial capabilities to adapt to changing conditions.

- Control must be limited to a small group of sound, knowledge and dedicated people, otherwise the effort will quickly deteriorate. At the same time, it is vital to draw in a much larger group of leaders and to make them part of the decision-making process.

- Good scholarship, well-documented and supported, with public statements being carefully controlled, is essential.

- In order to avoid undesirable criticism, how the organization is controlled and directed should not be widely advertised.

- Use all modern sales and motivational techniques to raise money and attract donors. This among, other things, means adding a personal touch including meeting in a home or other place the prospect enjoys being.
- Attempt to work with, rather than combat, the media and people in the arts.
- Representatives provide much of an organization's image; therefore, they need to be attractive, articulate, knowledgeable, and well-trained.(sic)
- People tend to accept theories and statements of "fact" because of who states them and how they are presented rather than their validity; therefore, it is essential to develop the image and credibility of the movement's leaders.
- A major portion of a movement's efforts needs to be directed toward attracting youth since this is the only group that is largely open to a radically different social philosophy.
- A movement should concentrate on problems (of direct and major concern to the populace) arising out of the present political system in order to destroy the "legitimacy" of that system. The movement's own ideology should be presented in terms of how it can solve these problems whereas alternative ideologies cannot. Correct predictions can be a powerful tool in "selling" the ideology.

The list reads like a road map of Charles' Koch's formative years: the authoritarian rule exhibited at highly disciplined boys' schools, his experience running Koch Industries, and his flirtation with social revolutionaries like Rothbard and company. But more important, Koch's list also served as a primer for his attempted coup of the Libertarian movement. He used his lessons" to create the Cato Institution, a Libertarian think tank that quietly introduced Koch's theories into the marketplace. Although Cato officially appeared January 1977, Koch and his supporters had already been fast at work creating it. Cato, like the John Birch Society, would have a limited number of shareholders. They consisted of Koch, his assistant, Pearson, and Rothbard. Ironically, Koch would later tighten his control even further by ousting Rothbard, a move that seemed to violate his first "lesson." But by then a fight for control of Koch Industries had taught him a new lesson the importance of controlling the majority of shares.<sup>80</sup>

In his 1976, John Birch Society paper, Charles Koch also included a list of unresolved questions. These questions were not about the John Birch Society, but rather about the necessary conditions for any movement to produce change. These questions are equally revealing of Charles Koch's plan to bring about the anarcho-capitalist revolution.<sup>81</sup>



- Who are the natural leaders of society necessary to effect social change and what are their characteristics?
- Can these leaders be attracted to and motivated by a movement with other than the highest scholarship?
- To what extent are non-intellectual motivations (e.g., prestige emotional commitment, short-term self-interest, social belonging, peer approval, a sense of achieving something truly important or riding the wave of the future) necessary?
- Can an “action” organization (contrasted with an educational organization) be successfully run today? How can the administration and other problems experienced by similarly structured organizations such as the State (the military) be overcome?
- Is it possible to have the necessary control and direction without driving away quality people? Since over-control crushes motivation, this type of regime may only attract drones. Can the required mix be obtained? How?

- What are the necessary external conditions for a well-run and well-funded movement to be successful?
- Under what conditions should radical ideas be introduced gradually and tactfully, and when should they be advocated starkly for shock value?
- Can a movement be successful without a charismatic leader who can activate large audiences with rousing speeches?
- How large and capable a cadre is required before a new activist organization can be successfully launched? Is it necessary to gain intellectual and financial support prior to formation? Should a magazine be started before the initial organizing effort?

Charles Koch would experiment with answers to these questions in the organizations he supported. The initial effort would involve a massive influx of money in support of a variety of libertarian organizations. He would follow many of the suggestions in the papers delivered at the 1976 conference on social change. He would later winnow them down to a few which were successful, and equally important under the control of Charles Koch

Murray Rothbard summarized and expanded the ideas discussed at the Social Change Conference in a manuscript called “Toward A Strategy for Libertarian Social Change,” written a few months after the conference.<sup>82</sup> Deemed at the time “too hot for general circulation” it outlines what Rothbard’s biographer Justin Raimondo says is the strategy carried out by the Cato Institute.<sup>83</sup>

Rothbard takes it a step further than anything presented at the conference. Rothbard chooses Lenin and the Bolsheviks as his model organization for revolutionary change. “In the past,” claims Rothbard, “libertarians only had an education strategy. Book, pamphlets, seminars, and lecturers are not a strategy,” argues Rothbard; “Joining a libertarian organization and socializing with like-minded people is not a strategy any more than joining a bridge club is a strategy.” Rothbard concedes, “that ideas are important, but action is what is required. The goal needs to be the victory of liberty. The libertarians need a dedicated cadre which is committed to victory.” Rothbard quotes Marx saying, “The philosophers have only interpreted the world in various ways; the point, however, is to change it.”<sup>84</sup>

Rothbard’s strategy is to build an uncompromising cadre that will control and direct the libertarian movement. They will not sell out for minimal gains,

nor will they pass up the practical activities and position necessary to achieve their goal. He summarizes by saying, “In our view, the proper solution ... is the centrist or movement building solution that Lenin adopted in the Marxist movement: namely, that it is legitimate and proper to advocate transitions demands as way-stations along the path to victory, provided that the ultimate goal of victory is always kept in mind.”<sup>85</sup>

Rothbard goes on to examine particular situations where libertarians could accept a transition step and others they could not accept. He warns against getting involved in electoral politics to the point where all principles are compromised to get votes. Rothbard will soon be making this very accusation against libertarian candidates. Rothbard’s manuscript is a detailed theoretical discourse on what is necessary to achieve victory for a social movement.<sup>86</sup> In a modified form much of this strategy would be adopted by Koch-funded libertarian organizations.

### **Structure for Revolution: Kochtopus**

In early 1977, the Cato Institute was incorporated in the state of Kansas; it was formed from the existing Charles Koch Foundation.<sup>87</sup> Its original shareholders were Charles Koch, Koch employee George Pearson and Murray Rothbard. Under this arrangement Charles Koch maintained the ultimate